

ROBERT C. SCHUBERT (CA SBN 62684)
 WILLEM F. JONCKHEER (CA SBN 178748)
 SCHUBERT JONCKHEER & KOLBE LLP
 Three Embarcadero Center, Suite 1650
 San Francisco, CA 94111
 Telephone: (415) 788-4220
 rschubert@schubertlawfirm.com
 wjonckheer@schubertlawfirm.com

BRIAN J. WANCA (*pro hac vice*)
 GLENN L. HARA (*pro hac vice*)
 RYAN M. KELLY (*pro hac vice*)
 ROSS M. GOOD (*pro hac vice*)
 ANDERSON & WANCA
 3701 Algonquin Road, Suite 500
 Rolling Meadows, IL 60008
 Telephone: (847) 368-1500
 bwanca@andersonwanca.com
 ghara@andersonwanca.com
 rkelly@andersonwanca.com
 rgood@andersonwanca.com

GEORGE D. JONSON (*pro hac vice*)
 MATTHEW E. STUBBS (*pro hac vice*)
 MONTGOMERY JONSON LLP
 600 Vine Street, Suite 2650
 Cincinnati, OH 45202
 Telephone: 513-241-4722
 gjonson@mojolaw.com
 mstubbs@mojolaw.com

Attorneys for Plaintiffs

TIFFANY CHEUNG (CA SBN 211497)
 TCheung@mofo.com
 BONNIE LAU (CA SBN 246188)
 BLau@mofo.com
 JESSICA L. GRANT (CA SBN 178138)
 JGrant@mofo.com
 MORRISON & FOERSTER LLP
 425 Market Street
 San Francisco, California 94105-2482
 Telephone: 415.268.7000
 Facsimile: 415.268.7522

LYNDSEY H. CAIN (*pro hac vice*)
 LCain@mofo.com
 MORRISON & FOERSTER LLP
 4200 Republic Plaza
 370 Seventeenth Street
 Denver, Colorado 80202-5638
 Telephone: 303.592.2226
 Facsimile: 303.592.1510

ERIN P. LUPFER (CA SBN 317994)
 ELupfer@mofo.com
 MORRISON & FOERSTER LLP
 12531 High Bluff Drive
 San Diego, California 92130-2040
 Telephone: 858.720.5100
 Facsimile: 858.720.5125

Attorneys for Defendants
 MCKESSON TECHNOLOGIES INC.
 and MCKESSON CORPORATION

NORTHERN DISTRICT OF CALIFORNIA
 OAKLAND DIVISION

TRUE HEALTH CHIROPRACTIC, INC., and
 MCLAUGHLIN CHIROPRACTIC
 ASSOCIATES, INC.,

Plaintiffs,

v.

MCKESSON CORPORATION,
 MCKESSON TECHNOLOGIES INC.,
 and DOES 1-10,

Defendants.

Case No. 4:13-cv-02219-HSG

**JOINT NOTICE OF FILING OF TRIAL
 EXHIBITS FOR THE COURT'S
 DETERMINATION OF PLAINTIFFS'
 INDIVIDUAL CLAIMS OF TREBLE
 DAMAGES**

Judge: Haywood S. Gilliam, Jr.

Pursuant to the Court's March 29, 2022 Order (ECF No. 533), Plaintiffs McLaughlin Chiropractic Associates, Inc. and True Health Chiropractic, Inc. (collectively, "Plaintiffs") and Defendants McKesson Corporation and McKesson Technologies Inc., (collectively, "Defendants," and together with Plaintiffs, the "Parties"), hereby jointly submit the Trial Exhibits for the Court's Determination of Plaintiffs' Individual Claims of Treble Damages.

Dated: March 30, 2022

By: /s/ Ross Good

ROSS GOOD
ANDERSON + WANCA

*Counsel for Plaintiffs
McLaughlin Chiropractic Associates, Inc.
and True Health Chiropractic Inc.*

Dated: March 30, 2022

By: /s/ Tiffany Cheung

TIFFANY CHEUNG
MORRISON & FOERSTER LLP

*Counsel for Defendants
McKesson Technologies Inc.
and McKesson Corporation*

FILER'S ATTESTATION

I, Tiffany Cheung, in compliance with Civil Local Rule 5-1(i)(3), attest that I have on file the concurrences for any signatures indicated by a "conformed" signature (/s/) within this e-filed document.

Dated: March 30, 2022

By: /s/ Tiffany Cheung

Tiffany Cheung

TRIAL EXHIBIT 1



medisoft

January 12, 2010

Dear Medisoft Customer,

I am pleased to announce our upcoming release of Medisoft version 16. This release is scheduled for availability in early March and contains many enhancements to help improve the productivity of your office.

While the product is scheduled to release in March, we are offering customers the ability to pre-order now for delivery in March. For those customers interested in pre-ordering, a significant discount is available for a limited time.

Pre-ordering beginning January 12, 2010: up to a 40% discount on software.

It pays to order early.

Contact your account representative today at 800-333-4747, option 1 for more details.

Kari Holloway
Vice President-Direct Sales, Medisoft
Physician Practice Solutions
McKesson Corporation
kari.holloway@mckesson.com

*offer available on select versions of Medisoft

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA
Trial Exhibit 1
Case No: <u>4:13-cv-02219-HSG</u>
Date Entered: _____
By: _____
Deputy Clerk

RS-TRUEHEALTH 000352

TRIAL EXHIBIT 4



medisoft

February 1, 2010

Dear Medisoft Customer,

Time is running short, act now to secure the maximum discount for the latest version of Medisoft.

I am pleased to announce our upcoming release of Medisoft version 16. This release is scheduled for availability in early March and contains many enhancements to help improve the productivity of your office.

While the product is scheduled to release in March, we are offering customers the ability to pre-order now for delivery in March. For those customers interested in pre-ordering, a significant discount is available for a limited time.

Pre-ordering--up to a 40% discount on software.

It pays to order early.

Contact your account representative today at 800-333-4747, option 1 for more details.

Kari Holloway
Vice President-Direct Sales, Medisoft
Physician Practice Solutions
McKesson Corporation
kari.holloway@mckesson.com

*offer available on select versions of Medisoft

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA	
Trial Exhibit 4	
Case No:	4:13-cv-02219-HSG
Date Entered:	
By:	
Deputy Clerk	

RS-TRUEHEALTH 000355

TRIAL EXHIBIT 5



Solutions for Independent Practices.

medisoft[®]
clinical

Minimize disruption and maximize value. Medisoft[®] Clinical provides a fully functional EHR for existing Medisoft[®] customers at a price point geared for smaller physician practices. There's never been a more critical time to adopt an EHR solution, and now, it's never been easier. OFFEHR[™] is a special, limited-time program to accelerate the implementation of our leading EHR solutions:

0% interest for 12 months OR
\$1000 cash rebate for the first provider and \$500 for each additional provider**

Act Now!
Contact your McKesson Sales Representative
800 333 4747 option 1

McKESSON
Empowering Healthcare

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA	
Trial Exhibit 5	
Case No:	4:13-cv-02219-HSG
Date Entered:	_____
By:	_____
Deputy Clerk	

Contact us today to learn more and get your practice in motion. Visit offehr.com.

*Not to be combined with any other McKesson offers. **25% down, the remaining 75% paid over 12 months at 0% interest. Copyright © 2010, McKesson Corporation and/or one of its subsidiaries. All rights reserved.

RS-TRUEHEALTH 000356

TRIAL EXHIBIT 6

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA
Trial Exhibit 6
Case No: 4:13-cv-02219-HSG
Date Entered: _____
By: _____
Deputy Clerk

medisoft[®]

Act Now!

**Only 10 days remain for
40% discount on Medisoft[®]
version 16***

Enhancements in Medisoft version 16 include:

- Greater control and acceleration in managing the revenue cycle including pre-claim edits, electronic secondary claims, and editing of electronic remittance advice prior to transaction posting
- Improved integration with Medisoft Clinical EMR
- Updated user interface
- Integrated reporting security

Contact McKesson Today!
800-333-4747, option 1
kari.holloway@mckesson.com

*Discount available for customers on specific versions of Medisoft. Contact your account representative for more information.

Copyright © 2009 McKesson Corporation and/or one of its subsidiaries. All rights reserved. Medisoft is a registered trademark of McKesson Corporation and/or one of its subsidiaries. Offer is pre-order, product will ship when officially released.

RS-TRUEHEALTH 000357

TRIAL EXHIBIT 7



BACK TO BLACK

Get your PM and EHR in total alignment to drive profitability and efficiency.

Receive a **\$1,500 cash rebate** and **\$750** for each additional provider.*

For chiropractic practices, there's never been a better time to adopt an EHR solution, and now with Medisoft® Clinical, it's never been easier with **FREE** chiropractic templates.

Medisoft's chiropractic templates enable quick and complete documentation, allowing you to bill more accurately, resulting in higher levels of reimbursement. The electronic health record and the customized chiropractic templates interface easily and integrate seamlessly with your practice management system.

Qualify for ARRA stimulus money.

For providers who qualify, Medisoft Clinical with the chiropractic templates may provide a clearer path to meaningful use of EHR technology and federal incentive payments.

Call us today at 800.333.4747, OPTION 1, or visit www.chirotemplates.com for more information.

© 2010 McKesson Corporation and/or one of its subsidiaries. All rights reserved.

Medisoft is a registered trademark of McKesson Corporation and/or one of its subsidiaries. All other company or product names mentioned may be trademarks, service marks or registered trademarks of their respective companies.

*Offer valid from April 19, 2010 through March 25, 2011. To qualify, participants must prove ICA or ACA membership. May not be used in conjunction with any other McKesson promotion.

Medisoft® Templates

- Assessment Initial
- Assessment Follow-up
- Fibromyalgia
- Headache
- Headache Follow-up
- Low Back Pain
- Low Back Pain Follow-up
- Neck Pain
- Neck Pain Follow-up
- Sciatica
- Sciatica Follow-up
- Strain/Sprain

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA	
Trial Exhibit 7	
Case No:	4:13-cv-02219-HSG
Date Entered:	
By:	
Deputy Clerk	

McKESSON
Empowering Healthcare

RS-TRUEHEALTH 000358

TRIAL EXHIBIT 9

medisoft®**UPGRADE****Get
Medisoft®
v16****MARKDOWN****Get a
15%*
Discount**

Start getting up to speed now and save —
in advance of ANSI 5010.

In all the talk about government stimulus incentives for adopting electronic health record (EHR) systems, one fact is being lost: ANSI 5010 is just around the corner! Significant changes are required to ensure that your electronic claims meet the new data requirements of ANSI 5010, beginning January 2012. Don't wait to start preparing. Take steps now with the Medisoft® v16 practice management (PM) system — and save 15%* in the process.

With numerous new features and enhancements, Medisoft v16 replaces cumbersome PIN tables with new easy-to-use grids that improve the management of payor information. Upgrading to Medisoft v16 will allow your practice to establish the grid format *now*, making the data conversion required for the ANSI 5010-compliant release faster and easier.

Make moving to a combined PM/EHR in Medisoft® Clinical part of your upgrade.

Prepare for ANSI 5010 and EHR stimulus incentives with Medisoft Clinical, McKesson's combined PM/EHR solution designed specifically for Medisoft users. Medisoft Clinical features Bright Note Technology™ that lets physicians capture an entire patient encounter in a single note using their preferred input method. Take advantage of Medisoft Clinical today and qualify for a rebate of \$1,000+ or special financing.**

Call us today to find out more about the limited-time 15% discount on Medisoft v16 or the rebate and special financing for Medisoft Clinical.

Call us today at 800-333-4747, OPTION 1

Hurry. Offers expire June 25, 2010.**

© 2010 McKesson Corporation and/or one of its subsidiaries. All rights reserved.
Medisoft is a registered trademark of McKesson Corporation and/or one of its subsidiaries. All other company or product names mentioned may be trademarks, service marks or registered trademarks of their respective companies.

*15% offer is for core Medisoft software and is available to customers on Medisoft v14 or older. Offer includes the Office Hours Professional application.

**Offers may not be used in conjunction with each other or any other McKesson promotion.

Medisoft® v16

Medisoft® v16 features enhanced capabilities, including pre-claim editing, integrated eligibility verification, electronic remittance management, billing and scheduling enhancements, and an updated user-friendly interface — all designed to improve your workflow and drive practice productivity.

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA	
Trial Exhibit 9	
Case No:	4:13-cv-02219-HSG
Date Entered:	
By:	
Deputy Clerk	

MCKESSON*Empowering Healthcare***RS-TRUEHEALTH 000360**

TRIAL EXHIBIT 11



BACK TO BLACK

Get your PM and EHR in total alignment to drive profitability and efficiency.

Receive a **\$1,500 cash rebate** and **\$750** for each additional provider.*

For chiropractic practices, there's never been a better time to adopt an EHR solution, and now with Medisoft® Clinical, it's never been easier with **FREE** chiropractic templates.

Medisoft's chiropractic templates enable quick and complete documentation, allowing you to bill more accurately, resulting in higher levels of reimbursement. The electronic health record and the customized chiropractic templates interface easily and integrate seamlessly with your practice management system.

Qualify for ARRA stimulus money.

For providers who qualify, Medical Clinical with the chiropractic templates may provide a clearer path to meaningful use of EHR technology and federal incentive payments.

Call your local value added reseller or visit www.chirotemplates.com for more information.

© 2010 McKesson Corporation and/or one of its subsidiaries. All rights reserved.

Medisoft is a registered trademark of McKesson Corporation and/or one of its subsidiaries. All other company or product names mentioned may be trademarks, service marks or registered trademarks of their respective companies.

*Offer valid from April 19, 2010 through March 25, 2011. To qualify, participants must prove ICA or ACA membership. May not be used in conjunction with any other McKesson promotion.

Medisoft® Templates

- Assessment Initial
- Assessment Follow-up
- Fibromyalgia
- Headache
- Headache Follow-up
- Low Back Pain
- Low Back Pain Follow-up
- Neck Pain
- Neck Pain Follow-up
- Sciatica
- Sciatica Follow-up
- Strain/Sprain

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA	
Trial Exhibit 11	
Case No:	4:13-cv-02219-HSG
Date Entered:	
By:	
Deputy Clerk	

McKESSON
Empowering Healthcare

RS-TRUEHEALTH 000362

TRIAL EXHIBIT 13



BACK TO BLACK

Get your PM and EHR in total alignment to drive profitability and efficiency.

Receive a **\$1,500 cash rebate** and **\$750** for each additional provider.*

For chiropractic practices, there's never been a better time to adopt an EHR solution, and now with Medisoft® Clinical, it's never been easier with **FREE** chiropractic templates.

Medisoft's chiropractic templates enable quick and complete documentation, allowing you to bill more accurately, resulting in higher levels of reimbursement. The electronic health record and the customized chiropractic templates interface easily and integrate seamlessly with your practice management system.

Qualify for ARRA stimulus money.

For providers who qualify, Medisoft Clinical with the chiropractic templates may provide a clearer path to meaningful use of EHR technology and federal incentive payments.

Call us today at 800.333.4747, OPTION 1, or visit www.chirotemplates.com for more information.

© 2010 McKesson Corporation and/or one of its subsidiaries. All rights reserved.

Medisoft is a registered trademark of McKesson Corporation and/or one of its subsidiaries. All other company or product names mentioned may be trademarks, service marks or registered trademarks of their respective companies.

*Offer valid from April 19, 2010 through March 25, 2011. To qualify, participants must prove ICA or ACA membership. May not be used in conjunction with any other McKesson promotion.

Medisoft® Templates

- Assessment Initial
- Assessment Follow-up
- Fibromyalgia
- Headache
- Headache Follow-up
- Low Back Pain
- Low Back Pain Follow-up
- Neck Pain
- Neck Pain Follow-up
- Sciatica
- Sciatica Follow-up
- Strain/Sprain

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA	
Trial Exhibit 13	
Case No:	4:13-cv-02219-HSG
Date Entered:	
By:	
Deputy Clerk	

McKESSON
Empowering Healthcare

RS-TRUEHEALTH 000364

TRIAL EXHIBIT 16

medisoft®

Time is MONEY

BillFlashSM will save you BOTH!

Enroll in the BillFlashSM patient statement service before June 30, 2010, and **BillFlash will waive the \$30/month service fee for 12 months* — a \$360 value!**

BillFlash makes patient statements easy.

BillFlash professionally produces and mails your patient statements and provides online document management. Just upload a file — similar to processing a batch of claims — and you're done in five minutes. You eliminate printing, sorting, folding, stuffing, sealing, metering and troubleshooting. Patients receive timely, high-quality printed statements with 100% delivery accuracy. And professional designs and return coupons/envelopes help drive payments.

BillFlash saves you time.

- Completely process patient statements in less than five minutes!
- Free-up staff for higher-value tasks

BillFlash saves you money.

- Virtually eliminate document creation labor expenses
- Reduce fixed production and mailing costs
- Eliminate inventory management expenses
- Decrease equipment acquisition and maintenance costs

BillFlash
Statements Made Easy!

Call us today at 800.333.4747, OPTION 1 to find out how you can save time and money with BillFlash.

Stop spending too much time and money on patient statements and start saving. Enroll in BillFlash today!

Offer valid through June 30, 2010.*

For more information about BillFlash, visit www.billflash.com

© 2010 McKesson Corporation and/or one of its subsidiaries. All rights reserved.

Medisoft is a registered trademark of McKesson Corporation and/or one of its subsidiaries. All other company or product names mentioned may be trademarks, service marks or registered trademarks of their respective companies.

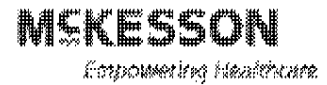
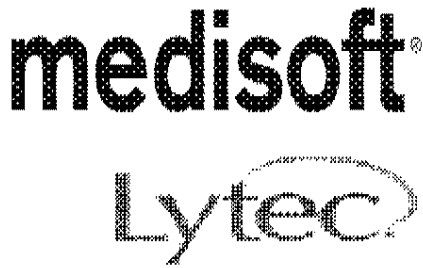
*Minimum of 50 statements per account per month; must pay per statement fee. May be used in conjunction with another McKesson promotion.

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA	
Trial Exhibit 16	
Case No:	4:13-cv-02219-HSG
Date Entered:	_____
By:	_____
Deputy Clerk	

MCKESSON
Empowering Healthcare

RS-TRUEHEALTH 000367

TRIAL EXHIBIT 18



September 2, 2009

Attention: ALL MEDISOFT/LYTEC DIRECT MODULE CUSTOMERS

EDI Direct Modules to Transition to New Revenue Management Solution

Direct modules will not longer be developed or sold.

Support will be discontinued on direct modules with the next release of Lytec and Medisoft in accordance with our direct module support policy.

What is Revenue Management?

It is a software tool that expands electronic data interchange (EDI) capabilities of Medisoft and Lytec practice management systems.

What does this mean for your practice?

- **Revenue Management requires the latest version of Medisoft or Lytec**
- **Upgrades to the latest version are provided a 20% discount through September 30, 2009**
- **Customers on the latest version will also receive Revenue Management free for 12 months**

Call 1-800-333-4747, option 1 to reach your sales representative

TRIAL EXHIBIT 22

Buy Medisoft® Clinical and get FREE e-prescribing*. That's a \$300 value!

For a limited time, you can get the powerful workflow engine of Medisoft® v15 practice management software *plus* a proven electronic health record (EHR) together in Medisoft® Clinical and get a year of e-prescribing *free**!

There's no better value in practice automation anywhere.

Medisoft Clinical offers a unique charting style built with Bright Note Technology™, featuring easy-to-complete progress notes, documentation tools that adapt to a physician's style, and a provider dashboard for quick access to patient information.

Bright Note Technology enables physicians to complete the entire patient record from a single note.

For more information

To order Medisoft Clinical and get a one-year subscription to e-prescribing free*, just call us at 800.333.4747. Be sure to mention promotion code: PRO-ESCRIBE-M. To learn more about the superior capabilities of Medisoft Clinical, visit www.medisoft.com.

Offer valid for a limited time.

Contact Us Today!
800-333-4747, option 1

www.medisoft.com

*Free offer is for a one year subscription to e-prescribing at a \$300 value. Offer requires \$375 required set up fee.
Copyright © 2009 McKesson Corporation and/or one of its subsidiaries. All rights reserved.

Medisoft is a registered trademark of McKesson Corporation and/or one of its subsidiaries.

Medisoft Clinical is your total practice management/EHR solution for improved efficiency and patient care. *It delivers the superior practice management tool you know with an EHR that improves the quality of care and financial performance.*

medisoft
clinical

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA	
Trial Exhibit 22	
Case No:	4:13-cv-02219-HSG
Date Entered:	
By:	
Deputy Clerk	

RS-TRUEHEALTH 000375

TRIAL EXHIBIT 29

McKESSON

Corporation

OFFER EXPIRES
DECEMBER 18, 2009

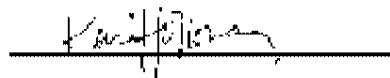
10% Savings on Medisoft® Clinical EMR
Plus first year of e-prescribing FREE*

Pay to the Valued Medisoft Customer
Order of

Savings Amount
10%*

This offer is only available over the phone and is not redeemable for cash

⑈001001⑈ ⑆00006789⑆ 12345678⑈



Dear Medisoft Customer,

There has never been a better time to upgrade to Medisoft Clinical EMR.

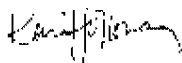
With a limited time savings of 10% off the software license, plus the first year of e-prescribing free, now is the time to automate your office with Medisoft Clinical.

Medisoft Clinical EMR includes **Bright Note Technology™**, featuring easy to complete progress notes, documentation tools that adapt to a physician's preferred style, and a provider dashboard for quick access to patient information.

Bright Note Technology™ allows a physician to populate the entire patient record from a single note.

This offer is only valid December 1-18, 2009. Call us today and save 10%.
1-800-333-4747, option 1

We look forward to serving you,



Kari Holloway, MBA
Vice President-Medisoft Direct Sales
Physician Practice Solutions
McKesson Corporation
kari.holloway@mckesson.com

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA	
Trial Exhibit 29	
Case No:	4:13-cv-02219-HSG
Date Entered:	
By:	
Deputy Clerk	

*10% discount is valid on Medisoft Clinical license, additional charges apply. First year e-prescribing does not include set-up and training fees.

Copyright © 2009 McKesson Corporation and/or one of its subsidiaries. All rights reserved. Medisoft is a registered trademark of McKesson Corporation and/or one of its subsidiaries

RS-TRUEHEALTH 000384

TRIAL EXHIBIT 31

medisoft

Save 10% **Save 10% on Medisoft Clinical EMR, plus Free E-Prescribing for the first year!**

Offer Expires: December 18, 2009

ACT NOW-ONLY 3 DAYS REMAIN

There has never been a better time to upgrade Medisoft to EMR.

With a limited time savings of 10% off the software license, plus the first year of e-prescribing free, now is the time to automate your office with EMR.

Medisoft EMR includes Bright Note Technology™, featuring easy to complete progress notes, documentation tools that adapt to a physician's preferred style, and a provider dashboard for quick access to patient information.

Bright Note Technology™ allows a physician to populate the entire patient record from a single note.

**This offer is only valid December 1-18, 2009. Call us today and save 10%.
1-800-333-4747, option 1**

We look forward to serving you,

Kari Holloway
Vice President, Direct Sales
McKesson Corporation

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA
Trial Exhibit 31
Case No: 4:13-cv-02219-HSG
Date Entered: _____
By: _____
Deputy Clerk

RS-TRUEHEALTH 000386

TRIAL EXHIBIT 35

Federal Communications Commission



**FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554**

May 9, 2008

VIA CERTIFIED MAIL
RETURN RECEIPT REQUESTED

McKesson Corporation
f/k/a Relay Health Corporation
Attn: Giovanni Colella, MD, CEO
1 Post Street, Floor 19
San Francisco, CA 94104

RE: BB-08-TC-2410

Dear Dr. Colella:

This is an official CITATION, issued pursuant to section 503(b)(5) of the Communications Act of 1934, as amended (the Act), 47 U.S.C. § 503(b)(5), for violations of the Act and the Federal Communications Commission's rules that govern telephone solicitations and unsolicited advertisements.¹ As explained below, future violations of the Act or Commission's rules in this regard may subject you and your company to monetary forfeitures.

It has come to our attention that your company, acting under your direction, apparently sent one or more unsolicited advertisements to telephone facsimile machines in violation of Section 227(b)(1)(C) of the Communications Act, as described in the attached complaint(s).² Section 227(b)(1)(C) makes it "unlawful for any person within the United States, or any person outside the United States if the recipient is within the United States . . . to use a telephone facsimile machine,

¹ 47 U.S.C. § 227; 47 C.F.R. § 64.1200. A copy of these provisions is enclosed for your convenience. Section 227 was added to the Communications Act by the Telephone Consumer Protection Act of 1991 and is most commonly known as the TCPA. The TCPA and the Commission's parallel rules restrict a variety of practices that are associated with telephone solicitation and use of the telephone network to deliver unsolicited advertisements, including fax advertising. 47 U.S.C. § 64.1200(a)(3); *Rules and Regulations Implementing the Telephone Consumer Protection Act of 1991 – Junk Fax Protection Act of 2005*, Report and Order and Third Order on Reconsideration, 21 FCC Red 3787 (2006) (2006 TCPA Report and Order).

² We have attached one complaint at issue in this citation. The complaint addresses a facsimile advertisement that contains the telephone number 516-491-1891, which your business utilized during the time period at issue.

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA
Trial Exhibit 35
Case No: 4:13-cv-02219-HSG
Date Entered: _____
By: _____
Deputy Clerk

EXHIBIT

Fampe 1
Mueller
3-31-15

Federal Communications Commission

computer, or other device to send an unsolicited advertisement to a telephone facsimile machine.”³ As relevant here, an “unsolicited advertisement” is “any material advertising the commercial availability or quality of any property, goods, or services which is transmitted to any person without that person’s prior express invitation or permission.”⁴ Mere distribution or publication of a fax number does not establish consent to receive advertisements by fax.⁵ Fax advertisements may be sent to recipients with whom the sender has an established business relationship, as long as the fax number was provided voluntarily by the recipient.⁶ An established business relationship is defined as a prior or existing relationship formed by a voluntary two-way communication between a person or entity and a business or residential subscriber with or without an exchange of consideration, based on a purchase, inquiry, application or transaction by that subscriber regarding products or services offered by such person or entity. This relationship must not have been previously terminated by either party.⁷ A fax advertisement may be sent to a recipient with whom the sender has an established business relationship only if the sender also:⁸

- (i) obtains the fax number directly from the recipient;⁹ or

³ 47 U.S.C. § 227(b)(1)(C); see also 47 C.F.R. § 64.1200(a)(3) (providing that no person or entity may . . . use a telephone facsimile machine, computer, or other device to send an unsolicited advertisement to a telephone facsimile machine). Both the TCPA and the Commission’s rules define “telephone facsimile machine” as “equipment which has the capacity to transcribe text or images, or both, from paper into an electronic signal and to transmit that signal over a regular telephone line, or to transcribe text or images (or both) from an electronic signal received over a regular telephone line onto paper.” 47 U.S.C. § 227(a)(3); 47 C.F.R. § 64.1200(f)(11). The Commission has stated that “[t]he TCPA’s definition of ‘telephone facsimile machine’ broadly applies to any equipment that has the capacity to send or receive text or images.” Thus, “faxes sent to personal computers equipped with, or attached to, modems and to computerized fax servers are subject to the TCPA’s prohibition on unsolicited faxes. . . [although] the prohibition does not extend to facsimile messages sent as email over the Internet.” *Rules and Regulations Implementing the Telephone Consumer Protection Act of 1991*, Report and Order, 18 FCC Rod 14014, 14131-32 (2003) (2003 TCPA Report and Order).

⁴ 47 U.S.C. § 227(a)(5); 47 C.F.R. § 64.1200(f)(13) (defining “unsolicited advertisement” to specify that prior express invitation or permission may be “in writing or otherwise”).

⁵ See *Rules and Regulations Implementing the Telephone Consumer Protection Act of 1991*, Memorandum Opinion and Order, 10 FCC Rod 12391, 12408-09 (1995) (1995 TCPA Reconsideration Order); see also 2003 TCPA Report and Order, 18 FCC Rod at 14128 (concluding that mere publication of a fax number in a trade publication or directory does not demonstrate consent to receive fax advertising).

⁶ 47 U.S.C. § 227(b)(1)(C); 47 C.F.R. 64.1200(a)(3)(ii).

⁷ 47 U.S.C. § 227(a)(2); 47 C.F.R. 64.1200(f)(5); see also 2006 TCPA Report and Order, 21 FCC Rod at 3797-3799. An inquiry about a store location or merely visiting a company website does not create an established business relationship; an inquiry must seek information about the products or services offered by the company. Once established, nonetheless, a business relationship will permit an entity to send facsimile advertisements until the recipient “terminates” the relationship by making a request not to receive future faxes. 2006 TCPA Report and Order, 21 FCC Rod at 3798.

⁸ If a valid EBR existed between the fax sender and recipient prior to July 9, 2005, and the sender also possessed the facsimile number prior to July 9, 2005, the sender may send the facsimile advertisements to that recipient without demonstrating how the number was obtained or verifying it was provided voluntarily by the recipient. 47 U.S.C. § 227(b)(1)(C)(ii); 47 C.F.R. § 64.1200 (a)(ii)(C); see also 2006 TCPA Report and Order, 21 FCC Rod at 3796.

⁹ 47 U.S.C. § 227(b)(1)(C)(ii)(I); 47 C.F.R. § 64.1200 (a)(ii)(A).

Federal Communications Commission

- (ii) obtains the fax number from the recipient's own directory, advertisement, or site on the Internet, unless the recipient has noted on such materials that it does not accept unsolicited advertisements at the fax number in question;¹⁰ or
- (iii) has taken reasonable steps to verify that the recipient agreed to make the number available for public distribution, if obtained from a directory or other source of information compiled by a third party.¹¹

Finally, in the event of a complaint or dispute, the burden rests with the fax sender to demonstrate that it either obtained prior express permission to send the facsimile advertisement or satisfied all the criteria necessary to invoke the established business relationship exemption.¹²

If, after receipt of this citation, you or your company violate the Communications Act or the Commission's rules in any manner described herein, the Commission may impose monetary forfeitures not to exceed \$11,000 for each such violation or each day of a continuing violation.

You may respond to this citation within thirty (30) days from the date of this letter either through (1) a personal interview at the Commission's Field Office nearest to your place of business, (2) a written statement, or (3) a teleconference interview with the Commission's Telecommunications Consumers Division in Washington, DC. Your response should specify the actions that you are taking to ensure that you do not violate the Commission's rules governing telephone solicitation and unsolicited advertisements, as described above.

Please contact Delores Browder at (202) 418-2861 to arrange for an interview at the closest field office, if you wish to schedule a personal interview. You should schedule any interview to take place within thirty (30) days of the date of this letter. You should send any written statement within thirty (30) days of the date of this letter to:

Kurt A. Schroeder
Deputy Chief
Telecommunications Consumers Division
Enforcement Bureau
Federal Communications Commission
445-12th Street, S.W., Rm. 4-C222
Washington, D.C. 20554

Reference EB-08-TC-2410 when corresponding with the Commission.

Reasonable accommodations for people with disabilities are available upon request. Include a description of the accommodation you will need including as much detail as you can.

¹⁰ 47 U.S.C. § 227(b)(1)(C)(ii)(II); 47 C.F.R. § 64.1200 (a)(ii)(B).

¹¹ 47 U.S.C. § 227(b)(1)(C)(ii)(II); 47 C.F.R. § 64.1200 (a)(ii)(B); see also 2006 TCPA Report and Order, 21 FCC Rcd at 3795 ("[I]f the sender obtains the number from sources of information compiled by third parties—e.g., membership directories, commercial databases, or Internet listings—the sender must take reasonable steps to verify that the recipient consented to have the number listed, such as calling or emailing the recipient.").

¹² 2006 TCPA Report and Order, 21 FCC Rcd at 3793-9, 3795, 3812.

Federal Communications Commission

Also include a way we can contact you if we need more information. Please allow at least 5 days advance notice; last minute requests will be accepted, but may be impossible to fill. Send an e-mail to fcc504@fcc.gov or call the Consumer & Governmental Affairs Bureau:

For sign language interpreters, CART, and other reasonable accommodations:
202-418-0530 (voice), 202-418-0432 (tty);

For accessible format materials (braille, large print, electronic files, and audio format): 202-418-0531 (voice), 202-418-7365 (tty).

Under the Privacy Act of 1974, 5 U.S.C. § 552(a)(e)(3), we are informing you that the Commission's staff will use all relevant material information before it, including information that you disclose in your interview or written statement, to determine what, if any, enforcement action is required to ensure your compliance with the Communications Act and the Commission's rules.

The knowing and willful making of any false statement, or the concealment of any material fact, in reply to this citation is punishable by fine or imprisonment under 18 U.S.C. § 1001.

Thank you in advance for your anticipated cooperation.

Sincerely,

Kurt A. Schroeder
Deputy Chief, Telecommunications Consumers Division
Enforcement Bureau
Federal Communications Commission

Enclosures

TRIAL EXHIBIT 47

EXHIBIT B-1

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA	
Trial Exhibit 47	
Case No:	4:13-cv-02219-HSG
Date Entered:	
By:	
Deputy Clerk	

EXHIBIT	31	PLTF.
WITNESS	McLaughlin	DEFT.
CONSISTING OF	2	PAGES
DATE	4-8-15	
BEHMKER REPORTING AND VIDEO SERVICES, INC.		

FROM: McKesson 404 704 8673 TO: 18886870279

02/03/10 13:32 Page001 of 001



Solutions for Independent Practices.

medisoft[®]
clinical

Minimize disruption and maximize value. Medisoft[®] Clinical provides a fully functional EHR for existing Medisoft[®] customers at a price point geared for smaller physician practices. There's never been a more critical time to adopt an EHR solution, and now, it's never been easier. OFFEHR[™] is a special, limited-time program to accelerate the implementation of our leading EHR solutions.

**0% Interest for 12 months* on
\$1000 cash rebate for the first provider and \$500 for each additional provider**

Act Now!
Contact your McKesson Sales Representative
800 333 4747 option 1

McKESSON
Empowering Healthcare

Contact us today to learn more and get your practice in motion. Visit offehr.com.

*Not to be combined with any other McKesson offers. **20% down, 0% financing for 12 months on \$1000 rebate. Copyright © 2010 McKesson Corporation and/or one of its subsidiaries. All rights reserved.

TRIAL EXHIBIT 48

EXHIBIT B-2

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA	
Trial Exhibit 48	
Case No:	<u>4:13-cv-02219-HSG</u>
Date Entered:	_____
By:	_____
Deputy Clerk	

EXHIBIT 32 PLTF.
WITNESS McLaughlin DEFT.
CONSISTING OF 2 PAGES
DATE 4-8-15
BEHMKER REPORTING AND VIDEO SERVICES, INC.

02/22/10 11:47 Page001 of 001

**Only 10 days remain for
40% discount on Medisoft®
version 16.**

- Greater control and acceleration in managing the revenue cycle including pre-claim edits, electronic secondary claims, and editing of electronic remittance advice prior to transaction posting
- Improved integration with Medisoft Clinical EMR.
- Updated user interface
- Integrated reporting security

Contact McKesson Today!
800-333-4747, option 1
kari.holloway@mckesson.com

විද්‍යාලයේ සිටින අධ්‍යාපන ප්‍රතිපත්ති පිළිබඳව, උසස්ම පාලන කාර්යාලයකින් මුල් කරගෙන යන බව,
ප්‍රතිපත්ති මගින් නියෝජ්‍යයන් විසින් සම්පූර්ණ වශයෙන්ම තීරණ ගැනීමට හැකි බව, සහතික ලෙසින් දක්වා ඇත.
ප්‍රතිපත්ති මගින් සම්පූර්ණ වශයෙන්ම තීරණ ගැනීමට හැකි බව, සහතික ලෙසින් දක්වා ඇත.

TRIAL EXHIBIT 49

EXHIBIT B-3

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA	
Trial Exhibit 49	
Case No:	4:13-cv-02219-HSG
Date Entered:	
By:	
Deputy Clerk	

EXHIBIT	<u>33</u>	PLTF.
WITNESS	<u>McLaughlin</u>	DEFT.
CONSISTING OF	<u>2</u>	PAGES
DATE	<u>4-8-15</u>	
BEHMKE REPORTING AND VIDEO SERVICES, INC.		

FROM: McKesson 404 704 8673 TO: 18656870279

05/11/10 08:09 Page1 of 1

medisoft
clinical

Receive a \$1,500 cash rebate and \$750 for
each additional provider.*

For chiropractic practices, there's never been a better time to adopt
an EHR solution, and now with Medisoft® Clinical, it's never been
easier with FREE chiropractic templates.

Medisoft's chiropractic templates enable quick and complete documentation, allowing you to
bill more accurately, resulting in higher levels of reimbursement. The electronic health record
and the customized chiropractic templates interface easily and integrate seamlessly with your
practice management system.

Qualify for ARRA stimulus money.

For providers who qualify, Medisoft Clinical with the chiropractic templates may provide a
clearer path to meaningful use of EHR technology and federal incentive payments.

Call us today at 800.333.4747, OPTION 1, or visit
www.chirotemplates.com for more information.

© 2010 McKesson Corporation and/or one of its subsidiaries. All rights reserved.
Medisoft is a registered trademark of McKesson Corporation and/or one of its subsidiaries. All other company or product
names mentioned may be trademarks, service marks or registered trademarks of their respective companies.
*Offer valid from April 19, 2010 through March 31, 2011. To qualify, participants must prove CCA or ACA membership.
May not be used in conjunction with any other McKesson promotion.

Medisoft® Templates

- Assessment Initial
- Assessment Follow-up
- Fibromyalgia
- Headache
- Headache Follow-up
- Low Back Pain
- Low Back Pain Follow-up
- Neck Pain
- Neck Pain Follow-up
- Sciatica
- Sciatica Follow-up
- Strain/Sprain

McKESSON
Empowering Healthcare

TRIAL EXHIBIT 57

Software Registration

Software registration has failed to detect an internet connection or modem device on this machine. To register your software, visit <http://www.ndchealthvar.com/productregistration> and enter the information provided below. You will then receive registration codes for each of your successfully registered applications. Enter the registration codes in the following window to complete the registration process.

Purchaser Information:

Practice/Registration Name: MCLAUGHLIN CHIROPRACTIC CENTER

Physician/Contact Name: Franya M. Peterson, D.C.

Practice Speciality: Chiropractor

Street Address: 2330 Merchants Drive

City: Knoxville

State: TN

Zip: 37912

Phone: (865)405-0655

Fax: (865)687-0279

E-mail: FPeterson06@comcast.net

Number of Users: 1

Customer Number: 66464

Value-Added Reseller Name:

Provider Name

D.C. Franya M. Peterson

D.C. John B. McLaughlin

D.C. Wesley B. McLaughlin

Product Name

NDCMedisoft

Specialty

Chiropractic

Chiropractic

Chiropractic

Version

12

Serial Number

10100121391257

Registration Code

5953616B9530

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

Trial Exhibit 57

Case No: 4:13-cv-02219-HSG

Date Entered: _____

By: _____

Deputy Clerk

EXHIBIT 13 PLTF.
WITNESS Peterson DEFT.
CONSISTING OF 1 PAGES
DATE 2-24-15
BEHMKER REPORTING AND VIDEO SERVICES, INC.

Franya Peterson, D.C. 0013

TRIAL EXHIBIT 58

NDCHealth Online Registration

Page 1 of 1

ndcmedisoft™

NDCHEALTH

You have successfully registered your NDCMedisoft.
Please print this page now. We recommend that you save the printout for future reference.

Your activation key is **5953616B9530**

*Registration/Practice Name **McLaughlin Chiropractic Center**

*Contact First Name **Franya** *Last Name **Peterson, D.C.**

*Street Address **2330 Merchants Drive**

*City **Knoxville**

*State **TN** *Zip **37912**

Practice Specialty **Chiropractor**

*E-mail Address **FPeterson06@comcast.net**

*Phone **8654050655** Fax **8656870279**
(No Punctuation) (No Punctuation)

VAR (reseller) Name _____ VAR# _____

Number of Users **1**

*Serial Number **10100121391257**

*Version **12**

*Provider First Name **Franya** Middle **M** *Last Name **Peterson**

*Required fields

[Submit Another Product](#) [Print Screen](#) [Close](#)

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
Trial Exhibit 58
Case No: **4:13-cv-02219-HSG**
Date Entered: _____
By: _____
Deputy Clerk

EXHIBIT 116 PLTF. _____
WITNESS Peterson DEFT. _____
CONSISTING OF 1 PAGES
DATE 2-24-15
BEHMKER REPORTING AND VIDEO SERVICES, INC.

<http://www.ndchealthvar.com/productregistration/index.aspx?ProductCategory=medisoft> 6/18/2007
Franya Peterson, D.C. 0012

TRIAL EXHIBIT 59

MEKESSON

Empowering Healthcare

Support Agreement Confirmation

Date: 07/13/07

To: MCLAUGHLIN CHIROPRACTIC CENTER

Attn: DR. PETERSON

RE: Confirmation of Technical Support Contract request

Dear Valued Customer,

We have received your request and credit card authorization to sign up for a 1 MONTH Technical Support Agreement. The total amount billed to your credit card was \$129.00. This Agreement is effective as of the date noted on this letter and will expire 06/13/07.

This letter is your confirmation that your contract has been processed successfully and is now active. Please keep this letter for your records.

Your confirmation number for your payment is 154099 and your customer number is 139530. Your technical support Ticket Number is 10668461.

Please reference this customer number and/or the Call ID when you contact the Technical Support Department for assistance. Providing these numbers will expedite the process of accessing your records. Please keep your customer number available to provide to technical support for any future assistance you may need.

To reach our Technical Support department please call, 800-334-4006 and follow the appropriate prompts for your specific software.

We thank you for your business and look forward to assisting your technical support needs.

Welcome to the Per-Se family!

Customer Support
800-334-4006

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA
Trial Exhibit 59
Case No: 4:13-cv-02219-HSG
Date Entered: _____
By: _____
Deputy Clerk

EXHIBIT	17	PLF:
WITNESS	Peterson	DEFT.
CONSISTING OF	1	PAGES
DATE	2-24-13	
BEHMK REPORTING AND VIDEO SERVICES, INC.		

Franya Peterson, D.C. 0001

TRIAL EXHIBIT 60

400
354
4006

Attn: Brandon
McKESSON
 Empowering Healthcare

Customer # 139530
 Ticket # 10660461
medisoft

Technical Support Agreement

Fax: 888-833-4763
 Mail: 5222 E. Baseline Road
 Suite 101
 Gilbert, AZ 85234

This Technical Support Agreement ("Agreement") is entered into by and between NDCHealth Corporation dba McKesson Provider Technologies ("McKesson") and the customer identified below ("Customer"). This Agreement shall be effective upon the date accepted by McKesson, as evidenced by McKesson's receipt of an executed unmodified Agreement. This Agreement cannot be deferred or post dated for a later start date under any circumstances.

Customer Information:

PRACTICE NAME: McLaughlin Chiropractic Center CUSTOMER NO: 10660461

STREET ADDRESS: 2330 Merchants Dr. Knoxville STATE: TN ZIP: 37912

SHIPPING ADDRESS: 2330 Merchants Dr. City, Knoxville STATE: TN ZIP: 37912

PRIMARY CONTACT: Franya Peterson

PHONE: (615) 405-0655 FAX: (615) 687-0279 EMAIL: FPeterson06@comcast.net

MEDISOFT VERSION #: 12

Contract Information:

Please circle Agreement period chosen:

MEDISOFT 1 YEAR- \$899 6 MONTH- \$599 3 MONTH- \$299

1 MONTH- \$129

McKesson shall provide technical support services to Customer by answering questions and providing assistance specifically regarding the operation of Customer's registered copy of Medisoft and applicable add-on products such as Office Hours, Direct Modules, Lab Connect, Medical Connect, and Data Runner or Communications Manager. Technical support is limited to providing assistance for the current version and one previous version of all related products. Technical support provided may include, but is not limited to, troubleshooting of an issue and providing resolution when available. It does not include network configuration, operating systems issues or, computer hardware problems. Technical support personnel may recommend Customer contact an independent specialist in computers or networking outside McKesson if the issue warrants. If it is determined that data corruption is causing the problem, a technical support personnel may suggest that file repair be done at an additional charge beyond the normal pricing listed above. Data conversion also is available for an additional charge.

Training for the Medisoft application is not covered under this Agreement, but is available from independent vendors outside McKesson. McKesson does offer Interactive Training CD's which are available for a fee of \$499. To have this product charged to the credit card below, please check this box

☐ APPROVED;

and McKesson will ship to the address above.

Customer understands that McKesson's sole obligation under this Agreement is to provide the technical support services described above. McKesson shall use commercially reasonable efforts to correct the problem Customer may be experiencing, but does not guarantee that any support provided under this Agreement will be sufficient to do so. McKesson cannot guarantee that any call will be answered or that any

v090107

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA	
Trial Exhibit 60	
Case No:	4:13-cv-02219-HSG
Date Entered:	
By:	
Deputy Clerk	

EXHIBIT 18 PLTF.
 WITNESS Peterson DEFT.
 CONSISTING OF 4 PAGES
 DATE 2-24-15
 BEHMK REPORTING AND VIDEO SERVICES, INC.

Franya Peterson, D.C. 0002

McKESSON

Empowering Healthcare

medsoft

problem resolution will be completed in a set amount of time. Customer understands that McKesson will keep Customer's data, to which it has access during problem resolution, secure and confidential in accordance with McKesson's obligations under the Health Insurance Portability & Accountability Act. By signing this Agreement, the parties agree to comply with the terms and conditions of the Business Associate Amendment attached hereto. McKesson's technical support staff will provide services consistent with the standard of care generally accepted within the industry for such services. IN NO EVENT SHALL MCKESSON BE RESPONSIBLE FOR DAMAGES OF ANY NATURE, EXCLUDING THOSE CAUSED BY MCKESSON'S GROSS NEGLIGENCE OR INTENTIONAL MISCONDUCT, ARISING FROM OR IN CONNECTION WITH THIS AGREEMENT INCLUDING, WITHOUT LIMITATION, ANY DIRECT, SPECIAL, INCIDENTAL, INDIRECT OR CONSEQUENTIAL DAMAGES.

It is understood that this Agreement is non-refundable and non-transferable, and any disputes relating to the services provided herein must be sent in writing to McKesson within 30 days from the date of the alleged breach by McKesson. McKesson will have 30 days from receipt of any dispute letter to investigate and reply to Customer with its findings. All such findings and/or conclusions will be considered final.

McKesson shall have the right to immediately terminate this Agreement if Customer breaches any of the terms or conditions of this Agreement, including but not limited to non-payment of any fees owed to McKesson by Customer under this Agreement, or any other agreement between the parties. Customer must remain in good standing at all times, with all outstanding invoices paid in full in a timely fashion. Upon termination, Customer shall not be entitled to any refund for the remaining period of the Agreement.

By signing below Customer acknowledges and agrees to these conditions and authorizes McKesson to charge Customer's credit card for the services described above, including the purchase of Interactive Training CD's if Customer has checked the "Approved" box above.

SIGNATURE: Franya Peterson, D.C. DATE: 7/11/07

CREDIT CARD NUMBER:	REDACTED	EXPIRATION DATE: (MM/YY)	REDACTED
TYPE:	<input checked="" type="checkbox"/> VISA	<input type="checkbox"/> MASTERCARD	<input type="checkbox"/> AMEX
CARDHOLDER SIGNATURE:	CARDHOLDER NAME: (PRINTED) (AS IT APPEARS ON CARD)		
<u>Franya Peterson</u>	<u>Franya M. Peterson</u>		

To be filled out by McKesson	
Date received: _____	Received by: _____
Time received: _____	Information Verified: <input type="checkbox"/>
Customer Number: _____	

v060107

Franya Peterson, D.C. 0003

McKESSON

Empowering Healthcare

medisoft™

BUSINESS ASSOCIATE AMENDMENT

If Customer is a Covered Entity subject to the Health Insurance Portability and Accountability Act of 1996, as amended (the "Act"), including the federal privacy regulations (the "Privacy Rule") and the security regulations (the "Security Rule") promulgated pursuant to the Act and codified at 45 C.F.R. parts 160 and 164, (collectively, "HIPAA"), then the Parties agree as follows:

1. **Definitions.** Unless otherwise defined in the Agreement or this Amendment, capitalized terms shall have the meanings set forth in HIPAA.
2. **Disclosure or Use of Protected Health Information ("PHI").** McKesson shall use and/or disclose PHI received from Customer or its authorized submitters only as permitted or required by this Amendment or as Required by Law. McKesson shall be entitled to disclose and use PHI received from Customer or its authorized submitters (i) for the purpose of providing the Services or as otherwise directed or requested by Customer, (ii) for the proper management and administration of McKesson's business, (iii) to carry out McKesson's legal responsibilities, or (iv) as otherwise permitted or Required By Law. Without limiting the generality of the foregoing, McKesson reserves the right at its sole discretion to disclose an Individual's PHI in response to and in accordance with a valid authorization executed by the Individual that meets the requirements set forth in the Privacy Rule. Customer authorizes McKesson to de-identify PHI created or received by McKesson on behalf of Customer, provided that the de-identification conforms to the requirements of the Privacy Rule. The resulting de-identified information may be used and disclosed by McKesson to the extent permitted under applicable law, for consideration or otherwise.
3. **Safeguards Against Misuse of PHI.** McKesson agrees that it will implement appropriate safeguards to prevent the use or disclosure of PHI received from Customer or its authorized submitters other than pursuant to the terms and conditions of this Amendment.
4. **Safeguards Related to Integrity of Electronic PHI.** McKesson agrees to implement administrative, physical, and technical safeguards that reasonably and appropriately protect the confidentiality, integrity, and availability of the Electronic PHI that it creates, receives, maintains, or transmits on behalf of Customer.
5. **Security of Electronic PHI.** McKesson shall report to Customer any Security Incident with respect to Electronic PHI of which it becomes aware and which has compromised the protections set forth in the Security Rule. This reporting obligation does not include trivial occurrences, such as scans, "pings" or unsuccessful attempts to penetrate computer networks or servers containing PHI maintained by McKesson; provided that, upon Customer's written request, McKesson will provide an aggregate report of the number of such trivial occurrences.
6. **Reporting of Disclosures of PHI.** McKesson shall report to Customer any use or disclosure of PHI in violation of this Amendment as soon as reasonably possible after becoming aware of the disclosure.
7. **Agents and Subcontractors.** McKesson shall enter into an agreement with any of its subcontractors or agents that will have access to any PHI that is subject to this Amendment, pursuant to which the agent or subcontractor agrees to be bound by the same restrictions, terms, and conditions on the use of PHI that apply to McKesson pursuant to this Amendment. In addition, McKesson shall enter into an agreement with any of its subcontractors or agents to whom it provides Electronic PHI, pursuant to which the agent or subcontractor agrees to implement reasonable and appropriate safeguards to protect the Electronic PHI.

v060107

Franya Peterson, D.C. 0004

McKESSON

Empowering Healthcare

medsoft

8. **Availability of Books and Records.** McKesson hereby agrees to make its internal practices, books, and records relating to the use and disclosure of PHI received from, or created or received by McKesson on behalf of, the Customer reasonably available to the Secretary of the United States Department of Health and Human Services for purposes of determining Customer's compliance with the Privacy Rule and/or the Security Rule.

9. **Liability.** McKesson shall indemnify Customer for any costs or expenses incurred in connection with claims asserted against Customer that arise as a result of McKesson's gross negligence or willful misconduct in handling Customer's PHI.

10. **Assisting with Patients' Rights.** McKesson agrees to make available to Customer information necessary for Customer to make an accounting of disclosures of PHI about an individual in accordance with 45 C.F.R. 164.528, as amended. In addition, to the extent McKesson possesses PHI that constitutes a Designated Record Set, McKesson agrees, at Customer's sole cost and expense, (i) to make available PHI necessary for Customer to respond to individuals' requests for access to their PHI in accordance with 45 C.F.R. 164.524, and (2) make available PHI for amendment and to incorporate any amendments or corrections to the PHI in accordance with 45 C.F.R. 164.526. Notwithstanding the preceding sentence, the Parties agree that McKesson does not, and shall have no obligation to, maintain any Designated Record Sets on Customer's behalf. In the event any individual requests access to PHI in Customer's Designated Record Sets directly from McKesson, McKesson shall, within thirty (30) business days, forward such request to the Customer. Any response to such requests, denial of access to or amendment of Customer's PHI shall be the responsibility of Customer. Notwithstanding the above, nothing in this Section 10 is intended to prevent McKesson from releasing PHI in response to an individual's valid authorization.

11. **Customer Obligations.** Customer agrees to obtain any consent or authorization that may be required by the Privacy Rule or any other applicable law and/or regulation prior to furnishing McKesson with PHI. Customer also agrees to inform McKesson of any PHI that is subject to any arrangements permitted or required of Customer under the Privacy Rule that may materially impact in any manner the use and/or disclosure of PHI by McKesson under this Amendment, including, but not limited to, restrictions on the use and/or disclosure of PHI as provided for in 45 C.F.R. 164.522 and agreed to by Customer. Customer shall not request McKesson to make any use or disclosure of PHI that would not be permitted under the Privacy Rule if made by Customer directly.

12. **No Third Party Beneficiaries.** Nothing expressed or implied in this Amendment or the Agreement is intended to confer, nor shall it confer, upon any person any rights, remedies, obligations or liabilities other than those explicitly detailed in this Amendment or the underlying Agreement.

13. **Termination.** Failure of McKesson to comply with any of the provisions contained in this Amendment shall be deemed a breach under the Agreement, and Customer shall be entitled to exercise all available rights, including termination, as provided in the Agreement. Upon termination or expiration of the Agreement, McKesson shall return, destroy or de-identify all PHI received from, or created or received by McKesson on behalf of, Customer, that remains in McKesson's possession or control and retain no copies of that PHI, or if the return or destruction is not feasible in McKesson's determination, extend the protections of this Amendment to the retained PHI and limit further uses and disclosures to those purposes that make the return or destruction infeasible.

14. **Effective Date.** The effective date of this Amendment is the later of the effective date of the Agreement or April 14, 2003, except that such terms or conditions related to Electronic PHI only shall be effective the later of the applicable Security Rule compliance date for the Customer or the effective date of the Agreement.

v080107

Franya Peterson, D.C. 0005

TRIAL EXHIBIT 61

RightFax

7/13/2007 12:57:20 PM

PAGE

1/003

Fax Server

FAX



To: DR. PETERSON
Company:
Fax: 18856870279
Phone:

NDCHealth, now Per-Se Technologies
EDI Customer Support
5222 E Baseline Rd, Suite 101
Gilbert, Arizona 85234
Phone: (800)689-4550
Fax: (480)635-8271

From:
Fax:
Phone:

CC:

NOTES:

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA
Trial Exhibit 61
Case No: 4:13-cv-02219-HSG
Date Entered: _____
By: _____
Deputy Clerk

EXHIBIT 19 PLTF.
WITNESS Peterson DEFT.
CONSISTING OF 1 PAGES
DATE 2-24-15
BEHMKÉ REPORTING AND VIDEO SERVICES, INC.

CONFIDENTIALITY NOTICE

This facsimile transmission is intended only for the addressee named above. It contains information that is privileged, confidential or otherwise protected from use and disclosure. If you are not the intended recipient, you are hereby notified that any review, disclosure, copying or dissemination, of this transmission, or the taking of any action in reliance on its contents, or other use is strictly prohibited. If you have received this transmission in error, please notify us by telephone immediately so that we can arrange for its return. Thank you for your cooperation.

Franya Peterson, D.C. 0039

TRIAL EXHIBIT 62

MEKESSON

Empowering Healthcare

Support Agreement Confirmation

Date: 07/13/07

To: MCLAUGHLIN CHIROPRACTIC CENTER

Attn: DR. PETERSON

RE: Confirmation of Technical Support Contract request

Dear Valued Customer,

We have received your request and credit card authorization to sign up for a 1 MONTH Technical Support Agreement. The total amount billed to your credit card was \$129.00. This Agreement is effective as of the date noted on this letter and will expire 08/13/07.

This letter is your confirmation that your contract has been processed successfully and is now active. Please keep this letter for your records.

Your confirmation number for your payment is 154099 and your customer number is 139530. Your technical support Ticket Number is 10668461.

Please reference this customer number and/or the Call ID when you contact the Technical Support Department for assistance. Providing these numbers will expedite the process of accessing your records. Please keep your customer number available to provide to technical support for any future assistance you may need.

To reach our Technical Support department please call, 800-334-4006 and follow the appropriate prompts for your specific software.

We thank you for your business and look forward to assisting your technical support needs.

Welcome to the Per-Se family!

Customer Support
800-334-4006

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA
Trial Exhibit 62
Case No: 4:13-cv-02219-HSG
Date Entered: _____
By: _____
Deputy Clerk

EXHIBIT	20	PLTF.
WITNESS	Peterson	DEFT.
CONSISTING OF	48	PAGES
DATE	2-24-15	
BEHMK REPORTING AND VIDEO SERVICES, INC.		

Franya Peterson, D.C. 0001

402
334
4006Attn: Brandon
McKESSON
Empowering HealthcareCustomer # 139530
Ticket # 10666461
medisoft**Technical Support Agreement**Fax: 888-833-4763
Mail: 5222 E. Baseline Road
Suite 101
Gilbert, AZ 85234

This Technical Support Agreement ("Agreement") is entered into by and between NDCHealth Corporation dba McKesson Provider Technologies ("McKesson") and the customer identified below ("Customer"). This Agreement shall be effective upon the date accepted by McKesson, as evidenced by McKesson's receipt of an executed unmodified Agreement. This Agreement cannot be deferred or post dated for a later start date under any circumstances.

Customer Information:PRACTICE NAME: McLaughlin Chiropractic Center CUSTOMER NO: 1066461STREET ADDRESS: 2330 Merchants Dr. CITY: Knoxville STATE: TN ZIP: 37912SHIPPING ADDRESS: 2330 Merchants Dr. CITY: Knoxville STATE: TN ZIP: 37912PRIMARY CONTACT: Franya PetersonPHONE: (813) 405-0655 FAX: (813) 687-0279 EMAIL: FPeterson06@comcast.netMEDISOFT VERSION #: 12**Contract Information:**

Please circle Agreement period chosen:

MEDISOFT 1 YEAR-\$899 6 MONTH-\$599 3 MONTH-\$299

1 MONTH-\$129

McKesson shall provide technical support services to Customer by answering questions and providing assistance specifically regarding the operation of Customer's registered copy of Medisoft and applicable add-on products such as Office Hours, Direct Modules, Lab Connect, Medical Connect, and Data Runner or Communications Manager. Technical support is limited to providing assistance for the current version and one previous version of all related products. Technical support provided may include, but is not limited to, troubleshooting of an issue and providing resolution when available. It does not include network configuration, operating systems issues or, computer hardware problems. Technical support personnel may recommend Customer contact an independent specialist in computers or networking outside McKesson if the issue warrants. If it is determined that data corruption is causing the problem, a technical support personnel may suggest that file repair be done at an additional charge beyond the normal pricing listed above. Data conversion also is available for an additional charge.

Training for the Medisoft application is not covered under this Agreement, but is available from independent vendors outside McKesson. McKesson does offer Interactive Training CD's which are available for a fee of \$499. To have this product charged to the credit card below, please check this box

☐ APPROVED;

and McKesson will ship to the address above.

Customer understands that McKesson's sole obligation under this Agreement is to provide the technical support services described above. McKesson shall use commercially reasonable efforts to correct the problem Customer may be experiencing, but does not guarantee that any support provided under this Agreement will be sufficient to do so. McKesson cannot guarantee that any call will be answered or that any

V090107

Franya Peterson, D.C. 0002

McKESSON

Empowering Healthcare

medisoft

problem resolution will be completed in a set amount of time. Customer understands that McKesson will keep Customer's data, to which it has access during problem resolution, secure and confidential in accordance with McKesson's obligations under the Health Insurance Portability & Accountability Act. By signing this Agreement, the parties agree to comply with the terms and conditions of the Business Associate Amendment attached hereto. McKesson's technical support staff will provide services consistent with the standard of care generally accepted within the industry for such services. IN NO EVENT SHALL MCKESSON BE RESPONSIBLE FOR DAMAGES OF ANY NATURE, EXCLUDING THOSE CAUSED BY MCKESSON'S GROSS NEGLIGENCE OR INTENTIONAL MISCONDUCT, ARISING FROM OR IN CONNECTION WITH THIS AGREEMENT INCLUDING, WITHOUT LIMITATION, ANY DIRECT, SPECIAL, INCIDENTAL, INDIRECT OR CONSEQUENTIAL DAMAGES.

It is understood that this Agreement is non-refundable and non-transferable, and any disputes relating to the services provided herein must be sent in writing to McKesson within 30 days from the date of the alleged breach by McKesson. McKesson will have 30 days from receipt of any dispute letter to investigate and reply to Customer with its findings. All such findings and/or conclusions will be considered final.

McKesson shall have the right to immediately terminate this Agreement if Customer breaches any of the terms or conditions of this Agreement, including but not limited to non-payment of any fees owed to McKesson by Customer under this Agreement, or any other agreement between the parties. Customer must remain in good standing at all times, with all outstanding invoices paid in full in a timely fashion. Upon termination, Customer shall not be entitled to any refund for the remaining period of the Agreement.

By signing below Customer acknowledges and agrees to these conditions and authorizes McKesson to charge Customer's credit card for the services described above, including the purchase of Interactive Training CD's if Customer has checked the "Approved" box above.

SIGNATURE: Franya Peterson, D.C. DATE: 7/11/07

CREDIT CARD NUMBER:	REDACTED	EXPIRATION DATE: (MM/YY)	REDACTED
TYPE:	<input checked="" type="checkbox"/> VISA	<input type="checkbox"/> MASTERCARD	<input type="checkbox"/> AMEX
CARDHOLDER SIGNATURE:	CARDHOLDER NAME: (PRINTED) (AS IT APPEARS ON CARD)		
<u>Franya Peterson</u>	<u>Franya M. Peterson</u>		

To be filled out by McKesson	
Date received: _____	Received by: _____
Time received: _____	Information Verified: <input type="checkbox"/>
Customer Number: _____	

v060107

Franya Peterson, D.C. 0003

McKESSON

Empowering Healthcare

medisoft

BUSINESS ASSOCIATE AMENDMENT

If Customer is a Covered Entity subject to the Health Insurance Portability and Accountability Act of 1996, as amended (the "Act"), including the federal privacy regulations (the "Privacy Rule") and the security regulations (the "Security Rule") promulgated pursuant to the Act and codified at 45 C.F.R. parts 160 and 164, (collectively, "HIPAA"), then the Parties agree as follows:

1. **Definitions.** Unless otherwise defined in the Agreement or this Amendment, capitalized terms shall have the meanings set forth in HIPAA.
2. **Disclosure or Use of Protected Health Information ("PHI").** McKesson shall use and/or disclose PHI received from Customer or its authorized submitters only as permitted or required by this Amendment or as Required by Law. McKesson shall be entitled to disclose and use PHI received from Customer or its authorized submitters (i) for the purpose of providing the Services or as otherwise directed or requested by Customer, (ii) for the proper management and administration of McKesson's business, (iii) to carry out McKesson's legal responsibilities, or (iv) as otherwise permitted or Required By Law. Without limiting the generality of the foregoing, McKesson reserves the right at its sole discretion to disclose an Individual's PHI in response to and in accordance with a valid authorization executed by the Individual that meets the requirements set forth in the Privacy Rule. Customer authorizes McKesson to de-identify PHI created or received by McKesson on behalf of Customer, provided that the de-identification conforms to the requirements of the Privacy Rule. The resulting de-identified information may be used and disclosed by McKesson to the extent permitted under applicable law, for consideration or otherwise.
3. **Safeguards Against Misuse of PHI.** McKesson agrees that it will implement appropriate safeguards to prevent the use or disclosure of PHI received from Customer or its authorized submitters other than pursuant to the terms and conditions of this Amendment.
4. **Safeguards Related to Integrity of Electronic PHI.** McKesson agrees to implement administrative, physical, and technical safeguards that reasonably and appropriately protect the confidentiality, integrity, and availability of the Electronic PHI that it creates, receives, maintains, or transmits on behalf of Customer.
5. **Security of Electronic PHI.** McKesson shall report to Customer any Security Incident with respect to Electronic PHI of which it becomes aware and which has compromised the protections set forth in the Security Rule. This reporting obligation does not include trivial occurrences, such as scans, "pings" or unsuccessful attempts to penetrate computer networks or servers containing PHI maintained by McKesson; provided that, upon Customer's written request, McKesson will provide an aggregate report of the number of such trivial occurrences.
6. **Reporting of Disclosures of PHI.** McKesson shall report to Customer any use or disclosure of PHI in violation of this Amendment as soon as reasonably possible after becoming aware of the disclosure.
7. **Agents and Subcontractors.** McKesson shall enter into an agreement with any of its subcontractors or agents that will have access to any PHI that is subject to this Amendment, pursuant to which the agent or subcontractor agrees to be bound by the same restrictions, terms, and conditions on the use of PHI that apply to McKesson pursuant to this Amendment. In addition, McKesson shall enter into an agreement with any of its subcontractors or agents to whom it provides Electronic PHI, pursuant to which the agent or subcontractor agrees to implement reasonable and appropriate safeguards to protect the Electronic PHI.

v060107

Franya Peterson, D.C. 0004

McKESSON

Empowering Healthcare



8. **Availability of Books and Records.** McKesson hereby agrees to make its internal practices, books, and records relating to the use and disclosure of PHI received from, or created or received by McKesson on behalf of, the Customer reasonably available to the Secretary of the United States Department of Health and Human Services for purposes of determining Customer's compliance with the Privacy Rule and/or the Security Rule.

9. **Liability.** McKesson shall indemnify Customer for any costs or expenses incurred in connection with claims asserted against Customer that arise as a result of McKesson's gross negligence or willful misconduct in handling Customer's PHI.

10. **Assisting with Patients' Rights.** McKesson agrees to make available to Customer information necessary for Customer to make an accounting of disclosures of PHI about an individual in accordance with 45 C.F.R. 164.528, as amended. In addition, to the extent McKesson possesses PHI that constitutes a Designated Record Set, McKesson agrees, at Customer's sole cost and expense, (i) to make available PHI necessary for Customer to respond to individual's requests for access to their PHI in accordance with 45 C.F.R. 164.524, and (2) make available PHI for amendment and to incorporate any amendments or corrections to the PHI in accordance with 45 C.F.R. 164.526. Notwithstanding the preceding sentence, the Parties agree that McKesson does not, and shall have no obligation to, maintain any Designated Record Sets on Customer's behalf. In the event any individual requests access to PHI in Customer's Designated Record Sets directly from McKesson, McKesson shall, within thirty (30) business days, forward such request to the Customer. Any response to such requests, denial of access to or amendment of Customer's PHI shall be the responsibility of Customer. Notwithstanding the above, nothing in this Section 10 is intended to prevent McKesson from releasing PHI in response to an individual's valid authorization.

11. **Customer Obligations.** Customer agrees to obtain any consent or authorization that may be required by the Privacy Rule or any other applicable law and/or regulation prior to furnishing McKesson with PHI. Customer also agrees to inform McKesson of any PHI that is subject to any arrangements permitted or required of Customer under the Privacy Rule that may materially impact in any manner the use and/or disclosure of PHI by McKesson under this Amendment, including, but not limited to, restrictions on the use and/or disclosure of PHI as provided for in 45 C.F.R. 164.522 and agreed to by Customer. Customer shall not request McKesson to make any use or disclosure of PHI that would not be permitted under the Privacy Rule if made by Customer directly.

12. **No Third Party Beneficiaries.** Nothing expressed or implied in this Amendment or the Agreement is intended to confer, nor shall it confer, upon any person any rights, remedies, obligations or liabilities other than those explicitly detailed in this Amendment or the underlying Agreement.

13. **Termination.** Failure of McKesson to comply with any of the provisions contained in this Amendment shall be deemed a breach under the Agreement, and Customer shall be entitled to exercise all available rights, including termination, as provided in the Agreement. Upon termination or expiration of the Agreement, McKesson shall return, destroy or de-identify all PHI received from, or created or received by McKesson on behalf of, Customer, that remains in McKesson's possession or control and retain no copies of that PHI, or if the return or destruction is not feasible in McKesson's determination, extend the protections of this Amendment to the retained PHI and limit further uses and disclosures to those purposes that make the return or destruction infeasible.

14. **Effective Date.** The effective date of this Amendment is the later of the effective date of the Agreement or April 14, 2003, except that such terms or conditions related to Electronic PHI only shall be effective the later of the applicable Security Rule compliance date for the Customer or the effective date of the Agreement.

v060107

Franya Peterson, D.C. 0005

Comcast Webmail - Email Message

Page 1 of 3

Teleconf.
(877) 326-2337
Conf ID # 9402576#

From: "Gagey, Carl # PHXMED" <Carl.Gagey@McKesson.com>
To: <fpeterson06@comcast.net>
Subject: FW: Medisoft Training Schedule for July - Register Online - Improved Course Outlines (attached)
Date: Monday, July 09, 2007 1:13:22 PM

Dr. Peterson-

You can now register for the class by clicking on the link in the email body below. Thank you!

Carl Gagey

McKesson, formerly Per-Se Technologies
Phone (800) 333-4747, ext #2501
Fax (480) 324-3801
carl.gagey@mcckesson.com

From: Palmer, Tim # PHXMED
Sent: Friday, June 29, 2007 4:24 PM
Subject: Medisoft Training Schedule for July - Register Online - Improved Course Outlines (attached)

Thank you for choosing Medisoft! All Classes will be conducted using the latest Medisoft v12.

Below is a schedule of upcoming Structured Learning Courses. High Speed Internet Required. Purchase Required Before Registration Approval. The attached document includes additional Terms and Conditions as well as Course Outlines.

If these times do not work for you this week, please let me know in order for me to include you on future training schedules.

Most Classes are for users of Medisoft Advanced or Medisoft Network Pro. Although users of Medisoft Basic will receive benefit from most courses, those benefits will be limited only to the tools that are in Medisoft Basic.

Please keep in mind that the above trainings are structured courses teaching general patient accounting principles. Customized personal training options are available to purchase through your Medisoft Sales Representative.

NEW REGISTRATION PROCESS

Registration for structured classes is now done over the internet. You can find the session that you want to attend by going to <http://mailcenter.comcast.net/wmc/v/wm/469272DC000527A2000043F02209229927C0CF...> Under "Live Sessions" click the "Upcoming" Tab. Choose the date and time that work best for you and click on the "Registration" hyperlink on the right hand side of the screen (you may have to scroll over). Enter your information and click the "Register" Button.

CLASS DATES AND TIMES

Medisoft Patient Accounting For Beginners (Formerly Medisoft 101)

Each session is identical and there are two classes in each session. Be sure to attend both classes

<http://mailcenter.comcast.net/wmc/v/wm/469272DC000527A2000043F02209229927C0CF...> 7/9/2007
Franya Peterson, D.C. 0006

Comcast Webmail - Email Message

Page 2 of 3

of each session for the full 4 hours of training.

Session 1 - Classes begin on both days at 1PM AZ Time (1PM Pacific/2PM Mountain/3PM Central/4PM Eastern) and each class lasts about 2 hours.

Day 1 - Monday, July 9 (Covers the Transaction Entry and Claim Management tools)

Day 2 - Tuesday, July 10 (Covers the Deposit list and Statement Management tools)

Session 2 - Classes begin on both days at 9AM AZ Time (9AM Pacific/10AM Mountain/11Noon Central/12AM Eastern) and each class lasts about 2 hours

Day 1 - Monday, July 23 (Covers the Transaction Entry and Claim Management tools)

Day 2 - Tuesday, July 24 (Covers the Deposit list and Statement Management tools)

Medisoft Patient Accounting for Experienced Users (Formerly Medisoft for Experienced Users)

Each session is identical and there are two classes in each session. Be sure to attend both classes of each session for the full 4 hours of training.

Session 1 - Classes begin on both days at 9AM AZ Time (9AM Pacific/10AM Mountain/11Noon Central/12AM Eastern) and each class lasts about 2 hours

Day 1 - Wednesday, July 11 (Covers the Transaction Entry and Claim Management tools)

Day 2 - Thursday, July 12 (Covers the Deposit list and Statement Management tools)

Session 2 - Classes begin on both days at 1PM AZ Time (1PM Pacific/2PM Mountain/3PM Central/4PM Eastern) and each class lasts about 2 hours.

Day 1 - Wednesday, July 25 (Covers the Transaction Entry and Claim Management tools)

Day 2 - Thursday, July 26 (Covers the Deposit list and Statement Management tools)

Office Hours Professional

Friday, July 13 - Class begins at 10AM AZ Time (10AM Pacific/11AM Mountain/12Noon Central/1PM Eastern) and lasts about 2 hours

There are no returns on purchased training classes

Schedule subject to change at any time

Classes subject to cancellation without prior notification

Pricing and conditions are subject to change at any time

Please let me know if you have any questions about the trainings. Email correspondence preferred.
Thanks,

Tim Palmer

Implementation and Training

Per-Se, now McKesson Corporation

800-333-4747 x2735 direct

480-324-3835 fax

tim.palmer@per-se.com

www.mckesson.com

Medisoft and Lytec Certified

• Confidentiality Notice: This e-mail message, including any attachments, is for the sole use of the intended recipients and may contain confidential and/or privileged information. Any unauthorized review, use, disclosure or distribution is prohibited. If you are not the intended recipient, please contact the sender by reply e-mail, delete this message and destroy all copies thereof.

(Attachments successfully scanned for viruses.)

<http://mailcenter.comcast.net/wmc/v/wm/469272DC000527A2000043F02209229927C0CF...> 7/9/2007

Franya Peterson, D.C. 0007

Comcast Webmail - Email Message

Page 3 of 3

Attachment 1: (application/msword)

Attachment 2: (application/msword)

Attachment 3: (application/msword)

<http://mailcenter.comcast.net/wmc/v/wm/469272DC000527A2000043F02209229927C0CF...> 7/9/2007
Franya Peterson, D.C. 0008

Medisoft Structured Training Classes

Terms and Conditions:

- ☐ All group training classes include attendees from multiple practices and are only held according to a schedule that is maintained by the trainer.
- ☐ Most Classes are for users of Medisoft Advanced or Network Pro. Although users of Medisoft Basic will receive benefit from most courses, those benefits will be limited only to the tools that are in Medisoft Basic.
- ☐ Users must dial into a telephone based conference (Raindance) as well as log into a web based training session (WebEx). Joining the WebEx session may require the download and installation of a WebEx Client.
- ☐ Classes can be attended from any location with a high speed internet and phone connection. Medisoft does not have to be installed on the computer from which the classes will be attended. All attendees will be granted access to view Medisoft on the instructor's computer.
- ☐ Classes must be purchased before attending.
 - o Training classes can be purchased through Medisoft's Inside Sales team at 800-333-4747 option 1.
 - o Currently the structured classes are available for \$99* for an entire single office (not per-person or per computer connection).
 - o A schedule of upcoming classes can be acquired by emailing tim.palmer@mckesson.com.
 - o Users may ask for permission to re-attend any purchased class for a refresher within 8 weeks of the initial attended class session.
- ☐ There are no returns on purchased training classes.
- ☐ Schedule subject to change at any time
- ☐ Classes subject to cancellation without prior notification
- ☐ Pricing and conditions are subject to change at any time

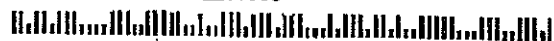


PER-SE TECHNOLOGIES, INC.
PO BOX 403421
ATLANTA GA 30384-3421

INVOICE

Invoice Number	
G525421	
Invoice Date	Invoice Amount
08/19/2007	\$344.66 USD
Payment Term:	Due Date
IMMEDIATE	08/19/2007
Customer Number	Business Unit
68464	NPYOM

MED59M.A236F4.J002E0.505



WESLEY MCLAUGHLIN DC
2330 MERCHANTS DR
KNOXVILLE TN 37912-5136

PER-SE TECHNOLOGIES, INC.
PO BOX 403421
ATLANTA GA 30384-3421



PLEASE RETURN THIS PORTION WITH PAYMENT

For billing questions please contact: 1-800-894-0333

Line	Description	Qty	Unit	Unit Amount	Net Amount	Tax Amount	Grand Extended Amount
Order No: 151134							
2	MEDISOFT BASIC Serial Number: 10100121391257	1		299.0000	\$299.00	\$27.66	\$326.66
1	FREIGHT	1		18.0000	\$18.00	\$0.00	\$18.00
Subtotal for WESLEY MCLAUGHLIN DC / 0:					\$317.00	\$27.66	\$344.66

Pending Credit Card Authorization
DO NOT REMIT

CHANGE OF OWNERSHIP/ADDRESS: Please notify Per-Se Technologies in writing 30 days prior to a change of ownership or change of address. Please send this information to: Per-Se Technologies, 4 Corporate Square Atlanta, GA 30329 Attn: Accounts Receivable.

Please Remit to:
PER-SE TECHNOLOGIES, INC.
PO BOX 403421
ATLANTA GA 30384-3421

SUBTOTAL	TAX TOTAL	TOTAL DUE
\$ 317.00	\$ 27.66	\$ 344.66
Customer Number	Invoice Number	
68464	G525421	
Invoice Amount	Invoice Date	
\$344.66 USD	08/19/2007	



5222 E. Baseline Rd., Suite 101 Gilbert, AZ 85234
 MediSoft Sales 800-333-4747 Support 800-334-4006
 Lytec Sales 800-735-1991 Support 800-895-8700

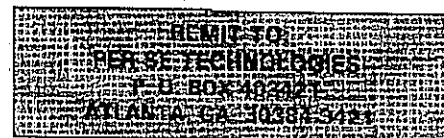
PACKING SLIP

DELIVERY NO.	447256
DATE	11-JUN-07
CUSTOMER NO	66464
ORDER NO.	151134

FEDEX 2 DAY

Page 1 of 1

QUANTITY	UNIT	DESCRIPTION	UNIT PRICE	EXTENSION
1	1	MEDIW		
		MEDISOFT BASIC SN# 10100121391257	\$299.00	\$299.00
Thank you for choosing Per-Se Technologies Physician Services!				
PO Number: Phone Number: SHIP TO: WESLEY MCLAUGHLIN DC 2330 MERCHANTS DR KNOXVILLE, TN 37912 Credit Card Number: XXXXXXXXXXXX1476 Boxes: 1 Tracking Numbers: :790267693750				SUB TOTAL \$299.00 CHARGES 18.00 **TAXES \$27.66 TOTAL \$344.66 LESS PAYMENT \$344.66 AMOUNT DUE \$0.00



BILL TO:
 WESLEY MCLAUGHLIN DC
 2330 MERCHANTS DR
 KNOXVILLE, TN 37912

RETURN POLICY

Per-Se Technologies will replace damaged software. Contact the sales department at (800) 333-4747 within 30 days of the purchase date, and a replacement will be shipped to you promptly.

Upon payment in full for software, it will be released and shipped to the above recipient.

Prices are subject to change without notice.

ALL SALES ARE FINAL. No returns or allowances permitted. Franya Peterson, D.C. 0011

**Your order detail includes estimated taxes. The invoices you receive will reflect accurate taxes based on ship to jurisdictions included on your order.

NDCHHealth Online Registration

Page 1 of 1

ndcmedisoft™



You have successfully registered your NDCMedisoft.
Please print this page now. We recommend that you save the printout for future reference.

Your activation key is **5953616B9530**

*Registration/Practice Name		McLaughlin Chiropractic Center	
*Contact First Name	Franya	*Last Name	Peterson, D.C.
*Street Address		2330 Merchants Drive	
*City	Knoxville		
*State	TN	*Zip	37912
Practice Specialty		Chiropractor	
*E-mail Address		FPeterson05@comcast.net	
*Phone	8654050655	Fax	8656870279
(No Punctuation)		(No Punctuation)	
VAR (reseller) Name		VAR#	
Number of Users		1	
*Serial Number		10100121391257	
*Version		12	
*Provider First Name	Franya	Middle	M
		*Last Name	Peterson
*Required fields			
Submit Another Product		Print Screen	
		Close	

<http://www.ndchealthvar.com/productregistration/index.aspx?ProductCategory=medisoft>

6/18/2007

Franya Peterson, D.C. 0012

Software Registration

Software registration has failed to detect an internet connection or modem device on this machine. To register your software, visit <http://www.ndchsaalthvar.com/productregistration> and enter the information provided below. You will then receive registration codes for each of your successfully registered applications. Enter the registration codes in the following window to complete the registration process.

Purchaser Information:

Practice/Registration Name: MCLAUGHLIN CHIROPRACTIC CENTER

Physician/Contact Name: Franya M. Peterson, D.C.

Practice Speciality: Chiropractor

Street Address: 2330 Merchants Drive

City: Knoxville

State: TN

Zip: 37912

Phone: (865)405-0655

Fax: (865)687-0279

E-mail: FPeterson06@comcast.net

Number of Users: 1

Customer Number: 66464

Value-Added Reseller Name:

Provider Name

D.C. Franya M. Peterson

D.C. John B. McLaughlin

D.C. Wesley B. McLaughlin

Product Name

NDCMedisoft

Specialty

Chiropractic

Chiropractic

Chiropractic

Version

12

Serial Number

10100121391257

Registration Code

5953616B9530

Franya Peterson, D.C. 0013

Medisoft - Lytec - Concept
5222 E Baseline Rd Ste 101
Gilbert, AZ 85234

March 22, 2007

Customer Name: Franya M. Peterson, D.C.

Phone: (865) 405-0655 Fax: (865) 687-0279

Email: FPeterson01a@comcast.net

Thank you for spending time with me today. I appreciate your questions and feel confident the solutions we offer will meet your current and future needs. The information below is for review and ensure you understand and meet our requirements.

- **System requirements:** Our Products function properly with the following operating system platforms: Windows Server 2003 Standard Edition; Windows Server 2003 Enterprise Edition; Windows XP Professional; Windows 2000 Professional; Windows 2000 Server
- **Workstation System Requirements (Minimum):** Pentium 4 2.6Ghz processor or higher, 1GB of available hard disk space, 512MB of RAM, Windows 2000 Professional or Windows XP Professional.
- **Server System Requirements (Minimum):** Pentium 4 2.6Ghz processor or higher, 2GB of available hard disk space, 1GB of RAM, Windows 2000 Server or Windows 2003 Server.
- **Wireless Networks** are not recommended, due to timing issues with new computers. Fast Ethernet (also known as 100Mbps or 100Base-Tx) is highly recommended for use in this capacity. Wireless networks generally do not have the speed capacity necessary to run our Network Practice Management Platforms.
- **Software Return Policy: ALL SALES ARE FINAL.** Our company does not accept returns of software, and all sales are final. If your product is damaged, we will replace that product within 30-days of purchase at no charge.
- **Software Training/Implementation:** I understand that any training and implementation of this software is fee-based and NOT part of the software purchase. Pricing is available upon request. Purchase of a Training and Implementation package is required in order to have training questions answered. (Please call me for directly for pricing.)
- **Telephone Support** is an added cost and no free support is included with software purchases. If you elected not to purchase a "Technical Support Agreement" (TSA) at the time of your software purchase and require technical assistance, you will need to have a (TSA) in place before our Support Department can assist you. You can download a (TSA) from our websites, www.medisoft.com or www.lytec.com, or you can also contact us at 800-333-4747 and request a (TSA) to be faxed. These websites have a valuable online support tool that provide an extensive support section from our Technical Knowledge Base.
- **Data Conversion:** I understand that Medisoft Version 7 (and prior), and Lytec 2001 (and prior) have been tested, and that data conversions can be effected by environmental factors within an office and that can cause data corruption. These factors can also affect the conversion process. I also understand that if I experience problems with this conversion, I will need to purchase a support agreement before our Support Department can address my issue. There is a conversion and/or data repair service fee in addition to a support agreement.
- **Software purchase:** I understand that I have purchased the practice management software for my office directly from the manufacture rather than a local reseller.

I acknowledge that I have reviewed these statements and understand the content of this page.

Please sign and fax back to 480-324-3501: Franya M. Peterson, D.C.

Thank you again for your business! I am excited that you have chosen our software for your billing needs. I will remain in contact as we move forward. Contact me directly at 800-333-4747 ext 2501 with any questions.

Best regards,
Cari Gagey
Inside Sales Rep

Franya Peterson, D.C. 0014

Medisoft Custom Installation

Note: A custom installation is not required for most users. Do not complete a custom installation, unless your circumstances call for it and you have extensive computer software installation experience.

1. Insert the Medisoft 12 CD in the local CD-ROM drive. The **Installation** window appears.

Note: If the **Installation** window does not appear automatically, click the **Start** button and select the **Run** command. The **Run** window appears. On the **Run** window in the **Open** field, type **X:\AUTORUN** (where **X** is your CD-ROM drive letter) and click the **OK** button. The **Installation** window appears.

2. On the **Installation** window click **Install Medisoft**. The **Warning** window appears.
3. On the **Warning** window click the **Next** button. The **Welcome** window appears.
4. On the **Welcome** window select the **Installation type** by clicking the radio button next to the type of product you purchased. Click the **Next** button.

Note: The first four digits of the product serial number identify the product type.

5. On the **Software Licenses Agreement** window, click the **I Accept** button. The **Select Installation Type** window appears.
6. On the **Select Installation Type** window, click the **Custom Install** radio button and click the **Next** button. The **Select Components** screen appears.
7. On the **Select Components** window, select the appropriate components to install and click the **Next** button. The **Select Destination Directory** window appears.
8. On the **Select Destination Directory** window, click the **Browse** button to specify a location for installing the program and click the **Next** button. The **Backup Replaced Files** window appears.
9. Option: On the **Backup Replaced Files** window select the **Yes** radio button and click the **Next** button. The **Select Backup Directory** window appears.

Option: On the **Backup Replaced Files** window, select the **No** radio button and click the **Next** button. The **Ready to Install** window appears. Skip Step 10 and go directly to Step 11.

10. On the **Select Backup Directory** window, click the **Browse** button to specify a location for backing up files and click the **Next** button. The **Ready to Install** window appears.
11. On the **Ready to Install** window, click the **Next** button. The **Installing** window appears and tracks the progress of the installation.

If you do not have the current .NET framework on your computer, .NET is installed during the installation. The .NET installation on many PCs can take up to 15 minutes.

12. The **Open File – Security Warning** window appears for installing the .NET framework. Click the **Run** button.

Note: If you have the current .NET framework installed on your computer, this window will not appear. Go to step 13.

13. If you chose to install the **Communications Manager**, the **Communications Manager Installation** window appears. Click the **Next** button.

Note: If you did not choose to install the **Communications Manager**, go to step 14.

14. Once the installation is complete, the **Communications Manager Installation Completed** window appears. Click **Finish**.

15. The **Installation Completed** window appears. Click **Finish**. The installation program closes.

Option: on the **Installation Completed** window, select the **Launch Medisoft 12** check box. Click the **Finish** button.

Note: The first time Medisoft opens after installation a data conversion message appears. Consider backing up data before completing data conversion.

If you are working with multiple practices, each time you open a new practice that particular practice also needs to be converted until all practices have been converted to Version 12.

Note: After installation and after Medisoft 12 launches for the first time, the **Registration** window appears. Register now or within 30 days after installation. For instructions or questions on registering, click the **Help** button on the **Registration** window.

Franya Peterson, D.C. 0016

Advanced Reporting

Advanced Reporting - Decision Support at your Fingertips

Escalating costs, increased government regulations and lower reimbursements are putting extreme pressure on today's physician practices. The challenge for these offices, like yours, is to provide higher quality customer care while keeping costs to a minimum. In many cases, your staff struggles as they wear the many hats required of them. If they spend too much time focusing on one responsibility, other tasks simply don't get done. In the event all functions are addressed, the chance for error is greater. Advanced Reporting provides offices with a short-cut tool to obtain the mission-critical information needed to make important decisions - decisions about what to focus on first. Advanced Reporting offers all of this at an affordable price.

The Medisoft database contains an abundance of information: patient data, insurance information and clinical statistics. In the past, being able to take advantage of this information was difficult, if not impossible.

With Advanced Reporting, Medisoft helps physician offices increase workflow efficiencies by helping analyze administrative, financial and clinical information. Medisoft allows you to optimize resource management by tracking and predicting utilization. With Medisoft and Advanced Reporting, offices like yours have an affordable solution that provides exponential returns. To make the best decisions for your business, you need the best information. With Advanced Reporting, you will now have the data to make those decisions.

All of this at an affordable price

Franya Peterson, D.C. 0017

Linking Clinicians and Administration
with Medical Connect

Medical Connect

Franya Peterson, D.O. 0018

The focus of Medisoft has always been on administrative tasks in the physician office. As we enter a new era in healthcare - the Electronic Medical Record (EMR), Medisoft has found a way to tie both the administrative and clinical functions together through Medical Connect. Medical Connect allows users to connect scheduling and billing functions performed by office staff with the clinical functions and information performed by physicians - closing the loop on the entire office workflow. All of this at an affordable price.

Exporting patient data to and from Medisoft has never been easier. Users can export patient data from Medisoft to an EMR. There is no need to re-key this data into another system. In addition, patient information can be set to export at regularly scheduled intervals and up to five days in advance. For walk-in patients, no need to worry. Front desk staff can immediately send patient appointment information and demographic data to your EMR at patient check-in. During the patient's visit, the physician can chart directly into their EMR and then with the click of a button, the office staff can import that transaction data captured by the physician directly into Medisoft, saving hours of manually entering charges after the patient visit.

With Medisoft and Medical Connect, you will see a significant return on investment in a very short time. Having information flow between your EMR and Medisoft is critical. Being able to post charges directly from the EMR will allow your office to get claims sent sooner and as a result, you'll be paid faster.

All of the power and functionality of the larger, more expensive system, at an affordable price.

All of this at an affordable price

Enhance Your Practice's Revenue Cycle
with Medisoft's EDI Solutions

EDI Solutions

Collecting revenue in a timely manner is critical to your success! Being the market leader, we understand this better than any one else. Prior to the patient's visit, you can make sure you're going to get paid for the work you will be performing with eligibility verification. Once you've seen the patient, you can depend upon us for submitting your electronic claims to all payers followed by electronic remittance advice for most payers as well. Lastly, round out your collection process with electronic statements, saving staff valuable time from doing this very time consuming task. With these services you can accelerate your cash flow, reduce costs and improve office productivity. All of this at an affordable price.

Eligibility Verification provides quick confirmation of patient insurance and benefit coverage, reducing the likelihood of bad debt. With the click of a button a full days schedule can be sent to most payers and responses retrieved directly from the payers offering accurate and up-to-date information. This service not only saves time by eliminating lengthy phone calls to payers, it also accelerates cash flow by enabling immediate patient collection payment for any treatment not covered by insurance.

Electronic Claims and Remittance Processing enables accurate claims submissions and helps reduce rejected claims before they get to the payer through thousands of edits up front. That's right, your claims will be checked before they go the payer to make sure they contain correct data. Filing electronic claims also ensures payment in half the time of paper claims. Once through the payer's system, you'll receive notification of what the payer will pay on the claim in an electronic format. This allows the billing staff to post an entire EOB in just seconds, reducing paperwork, increasing accuracy, and eliminating processing costs associated with manual data entry.

Electronic Patient Statements eliminate the labor-intensive preparation of routine patient statement processing. Electronic Patient Statements enable you to transmit patient statements electronically to be printed and mailed, saving your office time and money. Your statements can go out every week if you would like and your staff can be freed up to focus on other activities.

Medisoft provides you with all of the tools you need to simplify complex financial and billing tasks. All of this and more at an affordable price.

All of this at an affordable price

Franya Peterson, D.C. 0019

Speed, Flexibility and Efficiency-
the Power of Office Hours Professional

Office Hours Professional

It all begins at the front desk. Efficiency is critical. The phones are ringing, patients are walking in, and the nurse asks about a patient's insurance coverage. All of this is happening at the same time. How do you best handle this situation? The answer – Medisoft and Office Hours Professional. A well organized front desk allows your staff to handle many tasks all at the same time and it all begins with Office Hours Professional.

With Office Hours Professional you can add payments directly into Medisoft and produce a Quick Receipt for those patients with co-pays. You can also collect these fees at the time of check-in. With customizable templates, you can reserve time slots for certain types of appointments. This will benefit physicians as well as patients. Office Hours Professional truly organizes the front desk making it easy to schedule and see more patients.

Wouldn't it be great to produce a list of upcoming appointments for your patients as they check-out? With Office Hours Professional, this is just a click away. It's simple to produce an appointment list for your patients so they too can have this data at their fingertips. In addition, you can set a maximum number of available appointments for your patients, thus ensuring they won't exceed the number of visits authorized by the patient's insurance carrier.

Medisoft and Office Hours Professional offer practices the best value in patient appointment scheduling with it's speed, flexibility and efficiency – saving time while at the same time enhancing patient service.
All of this at an affordable price.

All of this at an affordable price

Franya Peterson, D.C. 0020

Medisoft Patient Accounting for Beginners

Two day class in two hour blocks

Objective: To instruct attendees on how to use the four main patient accounting tools in Medisoft.

DAY 1 TOPICS

Explained: Case Overview

- ☐ Why create a case (not HOW to create a case)
- ☐ When to create a new case or copy an existing case

Transaction Entry:

- ☐ How to search for a Chart or Case
- ☐ Understanding the Totals Tab (Formerly Estimates Tab – Pre-version 12)
- ☐ Configure grid settings
 - o Add columns, change column order, and change column captions
- ☐ Procedure Code Entry
 - o Overview of important columns
 - o Overview of Diagnosis Code Entry
- ☐ Charge Related Buttons
 - o Explained: New, Delete, Multi-link and Notes Button

Claim Management:

- ☐ Creating Claims
 - o By Assigned Provider or Attending Provider
- ☐ Explained: Importance of Carrier, Status, Media, Batch, Bill Date, and EDI Receiver columns
- ☐ Printing Claims to paper
 - o Primary and Secondary
- ☐ Sending Claims Electronically
 - o BASIC explanation of sending electronic claims through the MedAvant clearinghouse as established for users who sign up through Medisoft directly
- ☐ Process: Using Clickable CMS form to help fill out CMS 1500 form properly
- ☐ Explanation: List Only and Change Status Buttons
- ☐ Reprint Claims

Medisoft Patient Accounting for Beginners

DAY 2 TOPICS

Explained: Difference between a Patient Remainder Balance and a Patient Standard (Reference) Balance

Deposit List:

- ☐ Process: Using the Deposit List to improve collection copay process
 - o Enter copay as a deposit
 - o Enter Transactions for office visit
 - o Apply copay to office visit
- ☐ Process: Using the Deposit List to improve the application of batch Carrier checks
 - o Create a deposit for check
 - o Apply check by following the Carrier Explanation of Benefits
 - Includes Payments, Deductibles, Allowed Amounts, Write-offs
 - Explained: Importance of Check box in Complete column
 - Use Claim Rejection Messages to quickly create Statement Notes
- ☐ Process: Using the Deposit List to improve the application of patient payments
 - o Payments for combined copays and balance payments
 - o Payments for Procedures that span multiple Cases
- ☐ Screen Tools and Grid Enhancements
 - o Add Remainder Balance column to the grid
 - o Explained: Details Button
 - o Process: Making sure all created deposits are applied
 - o Print Deposit Slip

Statement Management:

- ☐ Create Statements
 - o Explained: Difference between a Statement Line and a Paper Statement
 - o Explained: Difference between a Remainder and a Standard Statement
- ☐ Print Statements
 - o Print Remainder Statements for all patients or selected patients using the filters
 - o Program options – Print line item detail only. Turn off Balance Forward
 - o Reprint Statements
 - o Statement Wizard: Create new statement reports that include statement notes, dunning messages, and global messages.

Billing Code Entry

Page 1 of 1

Billing Code Entry

Billing codes are user-defined one- or two-character sorting keys (0-9 or A-Z) which can be used to divide the practice into various groups for billing purposes. The billing code is designated in the Case window, Account tab, Case Billing Code field.

Each patient case can be included in a group by assigning a billing code. There are numerous ways to group cases, such as by insurance carrier, by case type (Workers' Compensation, Medicare, etc.), or by claim form needed for printing.

When printing reports, lists, statements, or claims, a selection can be made by range of Billing Codes, among other ranges.

New Code

To create a new billing code, go to the Lists menu and select Billing Codes.

1. In the Billing Code List window, click New or press F6 and the Billing Code: (new) window appears.
2. Enter the code and description and click Save or press F3 or to complete the process.

To exit this window without saving any changes entered, click Cancel.

Edit Code

If necessary, you can edit the description of a billing code, but you cannot edit the identifier code used by the program. To change the identifier code, you must create a new billing code.

To edit a billing code, click Edit or press F9 in the Billing Code List window to open the Billing Code window.

1. Highlight the description, or any portion of the description, and correct the information.
2. Click Save or press F3 to save the change.

Billing Code List

Page 1 of 1

Billing Code List

The **Billing Code List** window displays billing code records that have already been entered into the database.

Go to the **Lists** menu and select **Billing Codes**. The **Billing Code List** window opens.

- **Search For** - Enter the value for which you want to search. The program searches based on the item you have selected in **Field**. See Searching for more information.
- **Locate Icons** - Click an icon to do a more comprehensive search. The **Locate** window opens.
- **Field** - Click the down arrow to select the field through which you want to search.
- **Edit** - Click this button to edit the selected record.
- **New** - Click this button to create a new record.
- **Delete** - Click this button to delete the selected record.
- **Print Grid** - Click this button to print the information in the grid. See Print Grid Columns.
- **Close** - Click this button to close the window.

Billing Code Entry

Billing codes are user-defined one- or two-character sorting keys (0-9 or A-Z) which can be used to divide the practice into various groups for billing purposes. The billing code is designated in the **Case** window, **Account** tab, **Case Billing Code** field.

Each patient case can be included in a group by assigning a billing code. There are numerous ways to group cases, such as by insurance carrier, by case type (Workers' Compensation, Medicare, etc.), or by claim form needed for printing.

When printing reports, lists, statements, or claims, a selection can be made by range of Billing Codes, among other ranges.

New Code

To create a new billing code, go to the **Lists** menu and select **Billing Codes**.

1. In the **Billing Code List** window, click **New** or press **F8** and the **Billing Code: (new)** window appears.
2. Enter the code and description and click **Save** or press **F3** or to complete the process.

To exit this window without saving any changes entered, click **Cancel**.

Edit Code

If necessary, you can edit the description of a billing code, but you cannot edit the identifier code used by the program. To change the identifier code, you must create a new billing code.

To edit a billing code, click **Edit** or press **F9** in the **Billing Code List** window to open the **Billing Code** window.

1. Highlight the description, or any portion of the description, and correct the information.
2. Click **Save** or press **F3** to save the change.

Case - Account Tab

This tab stores basic information about the patient's account, as well as records the referring and attending providers, referral source, facility, and attorney information that has been set up in the Address file. From any one of these fields, you can add new records "on the fly" by clicking in the field and pressing F8.

- **Assigned Provider**—Click the down arrow to select a provider for the case.
- **Referring Provider**—Click the down arrow to select a referring provider for the case.
- **Supervising Provider**—Click this down arrow to select a supervising provider for the case. This is required whenever the assigned provider is being supervised by another provider and you need to send the supervising provider's information on the claim.
- **Referral Source**—Click the down arrow to select a referral source.
- **Attorney**—Click the down arrow to assign an attorney to the case.
- **Facility**—Click the down arrow to assign a facility to the case. If all of your procedures are performed at the practice's office, you do not need to enter anything in this field.
- **Case Billing Code**—Billing codes are stored in this window and can be associated with a particular patient for insurance billing purposes. A billing code is a sorting key for dividing the practice into groups for billing purposes. Here, you can add a new code by pressing F8 or edit an existing code by pressing F9. See Billing Code Entry on how to set these up.
- **Price Code**—The **Price Code** allows a practice to put patients into groups depending upon the price level for which they qualify. Select from A to Z, based on the pricing structure assigned in the Procedure/Payment/Adjustment Entry window.
- **Other Arrangements**—This four-character field can show any special arrangements like student discount, extended payment program, professional discount, or anything else you may need. The code or designation you use is up to you. Data entered in this field displays in the **Transaction Entry** window as a reminder during the creation of new charges.
- **Treatment Authorized Through**—For easy reference, enter the date through which treatment has been authorized by the patient's insurance carrier.
- **Visit Series**—These fields apply to the number of visits a patient is allowed for a particular diagnosis. See Visit Series Authorization for complete information on how to fill in these fields.
- **Patient Information**—Some patient demographic information is displayed at the bottom of the window, such as patient name, address, phone numbers, and date of birth. This is for information purposes and cannot be edited.

Case - Personal Tab

This tab records personal information about the patient, such as marital and employment status, work information, etc. By entering all pertinent information and clicking **Save**, a case number is automatically generated by the program.

Note: After the case number is saved in this window, it shows on the right side of the **Patient List** window under the **Case Number** column. Numbers set by the program are sequential and none of the code numbers are repeated within the program.

- **Case Number**—This field reflects which case information is being shown. To change to a different case, change the **Case** field at the bottom right corner of this window. See **Case Buttons**.
- **Case Closed**—If you find that a patient is no longer an active patient, you can close the case by clicking this check box. Later, in **File Maintenance**, closed cases can be deleted from the database.

Note: If you are upgrading from MS-DOS using converted data, any patients with a zero balance is automatically marked with a Case Closed status. The conversion process places a check mark in the **Case Closed** check box in this window for that patient.

- **Description**—This is a brief description of the purpose for treatment.
- **Cash Case**—When checked, this box indicates that the patient operates on a cash basis only. A cash case does not require that you have insurance information entered in the program.

If you have a case marked as a cash case and the **Print Patient Statement** box is not checked, the program displays a warning. Click **Yes** to accept the settings. Remember—by doing so, you render this case unbillable. Click **No** to clear the warning. The focus is placed on the **Print Patient Statement** box.

- **Guarantor**—Clicking in the **Guarantor** field displays a drop-down list of previously-entered patients and guarantors. If the individual cannot be found in this list, press **F8** to add the guarantor to the patient list.
- **Print Patient Statement**—By clicking the check box associated with this field, patient statements for this patient print when applicable. If the box has not been activated (no check mark appearing in it), the patient statement is not printed.

If the **Cash Case** box is checked and the **Print Patient Statement** box is not checked, the program displays a warning. Click **Yes** to accept the settings. Remember, by doing so, you render this case unbillable. Click **No** to clear the warning. The focus is placed on the **Print Patient Statement** box.

- **Marital Status**—The **Marital Status** of the patient can be indicated from the choices provided in the program.
- **Student Status**—If the patient is a student, select the **Student Status** from the choices provided in the program.
- **Employer**—Clicking in the patient **Employer** field displays a drop-down list of previously-entered employers. If the individual employer cannot be found in this list, click the field and press **F8** to add it to the list.
- **Status**—The **Status** indicates the patient's employment status. Choices are provided in the program.
- **Retirement Date**—Click the **Retirement Date** field or the down arrow to the right of the field and the calendar opens. See **Calendar** for information on use of the program calendar.
- **Location**—This field is related to the **Employer** field and is used for additional information to assist you in locating the patient at the employer's facility. Enter the plant number, building number, department, etc.
- **Work Phone**—The patient's work phone is recorded here.

mk:@MSITStore:C:\Program%20Files\Medisoft\Bin\MediWin.chm::/Case_Personal.htm

6/27/2007

Franya Peterson, D.C. 0027

- **Extension**—The patient's work phone extension is recorded here.
- **Patient Information**—Some patient demographic information is displayed at the bottom of the window, such as patient name, address, phone numbers, and date of birth. This is for information purposes and cannot be edited.

Entering NPI Information in Medisoft

Adding Practice NPI Information

1. On the **List** menu select **Provider**, and from the **Provider** submenu select **Class**. The **Provider Class List** window opens.
2. On the **Provider Class List** window, select the appropriate provider class and click the **Edit** button.

-Or-

If the provider classes have not been created, click the **New** button.

The **Provider Class List** data entry window opens.

3. On the **National ID** field, enter the NPI for the practice.
4. Click the **Save** button.
5. On the **List** menu select **Provider**, and from the **Provider** submenu select **Providers**. The **Provider List** window opens.

The provider class, edited or created in the previous steps, needs to be assigned to each provider associated with that Practice NPI.

6. On the **Provider List** window, click the **Default Group IDs** tab. From the **Provider Class** drop-down list, select the appropriate provider class.
7. Click the **Save** button.

Adding Provider NPI Information

1. On the **List** menu select **Provider** and from the **Provider** submenu select **Providers**. The **Provider List** window opens.
2. On the **Provider List** window, select the appropriate provider and click the **Edit** button.
3. Select the **Default Pins** tab and on the **National Identifier** field enter the provider NPI number into the **National Identifier** field.
4. Click the **Save** button.

Adding Referring Provider NPI Information

1. On the **List** menu select **Referring Providers**. The **Referring Provider List** window opens.
2. On the **Referring Provider List** window, select the appropriate referring provider and click the **Edit** button.
3. Select the **Default Pins** tab and on the **National Identifier** field enter the referring provider NPI number into the **National Identifier** field.
4. Click the **Save** button.

Note: Supervising Provider

A supervising provider is sent on an electronic claim if the rendering provider is being supervised by a physician. The supervising provider uses the Referring Provider list.

Adding Facility NPI Information

1. On the **List** menu select **Address**. The **Address List** window opens.
2. On the **Address List** window, select a facility and click the **Edit** button.

mk:@MSITStore:C:\Program%20Files\Medisoft\Bin\MediWin.chm::/Entering_NPI_Infor... 6/27/2007

Franya Peterson, D.C. 0029

Entering NPI Information in Medisoft

Page 2 of 2

3. On the **Address** window select the **General** tab. On the **National ID** field enter the NPI number.
4. Click the **Save** button.

Note: Purchased Service Provider

A purchased service provider is only sent on an electronic claim if the Purchased Service Indicator is checked under the procedure code being billed and the Purchase Service Indicator box has also been checked for the facility assigned to the case. The Purchased Service Provider NPI then looks at National Identifier assigned to the facility in the patient's case.

Transaction Entry Overview

Page 1 of 6

Transaction Entry Overview

Open Item Accounting

One of the main features of Medisoft is the true Open Item Accounting. Transactions entered stay on the active ledger until they are specifically paid. There is no clearing of the ledger and bringing up a total to start the new month, as in balance forward accounting. Part of that is because there is line entry capability, meaning you can enter payment transactions to a specific procedure on that ledger, leaving the unpaid procedures for future accounting.

Case-Based Accounting

Another important feature is that transaction entry is generally case-based. See Case Entry. Transactions entered into the patient ledger are usually grouped by a case number. You can have a case for each transaction or for each diagnosis type. For example, a patient is coming in for treatment of diabetes develops strep throat. All visits related to the diabetes condition are recorded in one case and a new case is opened for the strep infection. Then it is possible to pull separate reports for the diabetes visits and strep visits.


However, if you need to create a single transaction that requires a change to the default diagnosis codes assigned to a case, that is also possible. When you create the charge transaction, change the diagnosis codes in the transaction line. A separate claim is created for that transaction (or grouping of transactions).

Note: Changing the diagnosis codes in **Transaction Entry** does not alter the default diagnosis codes set in the patient **Case** window, **Diagnosis** tab.

Color-coded Transactions

This topic is for Medisoft Advanced and Medisoft Network Professional only.

If you chose to color code your transactions in Program Options, the results are visible in the **Transaction Entry** window.

Once color coding is established, you can open a **Color-Coding Legend** window to review the assigned colors. Right-click the grid and select **Show Color Legend**. A legend pops up. This legend floats above the Medisoft program until you deactivate it or close the open window. Click the Close button  in the upper right corner of the legend, right-click the legend and select **Close**, or right-click the grid in **Transaction Entry** and select **Show Color Legend** again to deactivate the legend.

Note: If you open the **Color-Coding Legend** in the **Transaction Entry** window, it appears also in the **Quick Ledger** window until deactivated.

Transaction Entry

Most actively involving patient accounting centers in the **Transaction Entry** window. In this part of the program, you record all patient visits and charges, as well as enter payments and adjustments that may be added to the ledger.

Transaction Entry Overview

Page 2 of 6

Transaction Entry

Chart: AGADW000 Case: 2 Broken Habit

Last Payment Date: 12/4/2002
Last Payment Amount: \$8.00
Last Visit Date: 9/3/2002
Visit: 1 of A 12

Medicare Patient
Medicare (Paper)
0-30 31-60 61-90 91+

Charges: \$105.00
Adjustments: \$0.00
Subtotal: \$105.00
Payment: \$0.00
Balance: \$105.00

Policy Copy: 0.00 OAC: Net2
Annual Deductible: 0.00 YTD: \$0.00 Account Total: \$105.00

Date	Procedure	Units	Amount	Total	Diag 1	Diag 2	Diag 3	Diag 4	1	2	3	4	Provider	POS	TOS	Allowed	MT	C
9/3/2002	75130	1	45.00	45.00	955.4								REL	11	14	0.00		
9/3/2002	89213	1	60.00	60.00	955.4								REL	11	1	0.00		

Total Taxable Amount: 0.00

Payments, Adjustments, And Comments:

Date	Pay/Adj Code	Who Paid	Description	Provider	Amount	Check Number	Unapplied
12/6/2002	COMMENT		Carrier MED01 was billed	REL	0.00		\$0.00

Apply New Delete MultiLink Note

Calculate Totals Update All Quick Receipt Print Receipt Print Claim Close Save Transactions

Header

- Chart and Case - Enter the chart number and case for which you want to enter or edit transactions.
- Document/Superbill - This field changes according to the options you select in Program Options, Data Entry tab. If you check Use Serialized Superbills in Program Options, this option changes to Superbill. If you select a superbill number, the transactions associated with that superbill appear.
- If you have serialized superbills turned on, you can pull up a patient by superbill number like you pull up patients by chart number when you first go in to Transaction Entry. Just click the down arrow next to the Superbill field to see all the superbills in the practice. This feature is only available when you do not already have a patient and case selected.
- Show All - Click this box to show all transactions for the selected case regardless of the superbill selected. If you change the superbill number, this box is unchecked. This option is available when you select Force Document Number in Program Options, Data Entry tab.
- RB, DP, OC, and/or IC - These abbreviations are account alerts for the patient. They are only visible when you have alerts turned on. You can turn these alerts on and off in the Program Options, General tab. RB indicates the patient has a remainder balance greater than the amount you entered. DP indicates the patient is delinquent on his or her payment plan. OC indicates the patient has an overdue co-payment. IC indicates the patient is in collections - you must have printed a collection letter for this to appear. See Program Options - General Tab.
- Last Payment Date and Last Payment Amount - These fields display when you applied this patient's last payment and how much it was, respectively. These fields reflect payments applied to the patient's account in general and are not specific to the case.
- Last Visit Date and Visit Count - These fields display the patient's last visit date for this case and the number of visit it is in a series. This information is available from the Case window, Account tab.

Note: You can also double-click the Visit field. This opens the Adjust Visit Counter window where you can edit the current visit number, if needed.

Totals

Over to the far right of the window, there are two tabs: Totals and Charge. The Totals tab is the default option. If you uncheck the Calculate Totals field in the bottom left corner, this tab will not show any financial information.

- Responsible Parties - This section shows you the insurance companies and the guarantor assigned to the case. It also shows you each party's estimated responsibility and an estimate on how much should be written off with an adjustment.

file://C:\Documents and Settings\Owner\Local Settings\Temp\~hhCDAC.htm

6/27/2007

Franya Peterson, D.C. 0032

Transaction Entry Overview

Page 3 of 6

- **Policy Copay and OA** - The Policy Copay field pulls the patient's copay. The OA field pulls the other arrangements from the patient's Case, Account tab.
- **Annual Deductible and YTD** - The Annual Deductible field pulls the annual insurance deductible from Case window, Policy 1 tab. The YTD field calculates how much of the deductible the patient has paid.
- **Charges, Adjustments, Subtotal, Payment, Balance** - These fields display the case's financial information.
- **Account Total** - This field displays the patient's total account balance.

Account Aging

The Transaction Entry window in the Totals space also displays the current insurance carriers assigned to the patient's case along with the aging columns. The aging columns' appearance is dictated by setting on the Program Options tab. For more information on changing the aging column display days see Program Options - Aging Reports Tab.

Also displayed in this space is:

- **TNB** - Total not billed. Claim must be created and sent.
- **Total** - Displays the total from the Insurance Aging and Patient Remainder Aging.

Charge Tab

Over to the far right of the window, there are two tabs: Totals and Charge. The Charge tab shows responsibility information, billing information, and payment information for the selected charge. You cannot edit these fields here.

Charges Grid

This section shows you information about each charge. You can add and remove fields from this section by clicking the grid modification button in the top left corner of the grid. See Grid Columns. This is normally a Medisoft Advanced and above feature. However, you can change the Transaction Entry grid in Medisoft as well.

Note: There are some fields applicable when sending electronic claims that are only available when you add fields to the grid: Co-pay Status Code, Quantity Qualifier, and Quantity.

- **New** - Click this button to create a new charge.
- **Delete** - Click this button to delete the selected charge.
- **Multilink** - Click this button to create charges for a multilink code. See Multilink Entry.
- **Note** - Click this button to add transaction documentation to the selected record. See Transaction Documentation.
- **Total Taxable Amount** - This field shows you the taxable amount for the charges.
- **Tax** - Click this button to add the tax for the taxable amount. See Adding Tax.

Payments, Adjustments, and Comments Grid

This section shows you information about payments and adjustments applied to the charges. It also shows any comments. You can add and remove fields from this section by clicking the grid modification button in the top left corner of the grid. See Grid Columns.

- **Apply** - Click this button to apply payments and adjustments to charges. See Apply Payment to Charges.
- **New** - Click this button to create a new payment or adjustment.
- **Delete** - Click this button to delete the selected payment.
- **Note** - Click this button to add transaction documentation to the selected record. See Transaction Documentation.

Buttons

- **Calculate Totals** - Click this box to calculate the totals at the top of the window.
- **Update All** - Click this button to save all transactions in Transaction Entry. The program checks all fields and warns you if any information is missing or questionable, i.e., the type of service is missing or a date is in the future.
- **Quick Receipt** - Click this button to print a walkout receipt quickly. The first time you click this button, if a default receipt type has not already been selected, you are prompted to select the default receipt format. After the format is selected, the program pulls the walkout report form from the Program Options window, Billing tab.
- **Walkout Receipt** - Click this button to print a walkout receipt for the patient.
- **Print Claim** - Click this button print a claim form for the transactions on the case.
- **Close** - Click this button to exit the window.
- **Save Transactions** - Click this button to save the transactions. If you are using the color coding option, the transactions become shaded to let you know they have been saved.

file://C:\Documents and Settings\Owner\Local Settings\Temp\~hhCDAC.htm

6/27/2007

Franya Peterson, D.C. 0033

Transaction Entry - Charge Transactions

In the Transaction Entry window, select or enter a Chart number. You can create a completely new patient record or edit an existing record from this field. Right-click the Chart field and select New Patient (or press F8) or Edit Patient (or press F9). When you have selected the patient chart number, press ENTER, TAB, or click the Case field and select a case number.

The case containing the most recently edited transactions for the selected patient is displayed. You can select a different case, edit an existing case, create a completely new case (with all new information), or create a new case by copying information from an existing case. Right-click in the Case field. Select New Case (or press F8) to create a completely new case, using no information from the existing case records; Edit Case (or press F9) to open the most recent case record and make changes; or Copy Case (or press F4) to copy information from the most recent case record to create a new case record. The patient Case window is opened to complete new case information. See [Case Entry](#).



If you want to select a case based on a transaction date, a procedure code, or an amount, press ALT + T or click the Select Case icon (to the right of the Case field). See [Select Case by Transaction Date](#).

To enter any charge, work in the Charges area of the window.

A number of fields can be added to the Charges area of this window, among them Claim Number. Adding this field lets you view which transactions are tied to a particular claim. By right-clicking the claim number in the Charges grid, you can change the claim's status. See [Changing Claim Status in Transaction Entry](#).

Using the Window

Select a link below:

[Creating new transactions](#)

[Entering transactions that contain taxable procedure codes](#)

[Entering MultiLink codes](#)

[Editing transactions](#)

[Deleting transactions](#)

[Entering transaction notes](#)

Unprocessed Transactions Overview

The Unprocessed Transaction window provides an interface between an Electronic Medical Records (EMR) service and Medisoft via Communications Manager.

This window provides controls to with edit and post financial transactions imported from an EMR service and Medisoft.

Transactions imported into Medisoft from an EMR service through Communications Manager are held as Unprocessed Transactions until they can be processed by a Medisoft user.

Related Topics

[Unprocessed Transactions Overview](#)

[Main Window Unprocessed Transactions](#)

[Edit Window Unprocessed Transactions](#)

[Unprocessed Transactions Common Billing Scenarios](#)

[Deleting Unprocessed Transactions](#)

[Setting Up Unprocessed Transactions](#)

[Configuring Communications Manager to Work with MediNotes for Handling Unprocessed Transactions](#)

[Configuring Communications Manager to Work with SpringCharts for Handling Unprocessed Transactions](#)

[Editing Unprocessed Transactions](#)

[Posting Unprocessed Transactions](#)

[Viewing Unprocessed Transactions](#)

Unprocessed Transactions Main Window

Use the Unprocessed Transaction window to view information on transactions, make changes to transaction information, prepare transactions for posting to the practice management software, and print transaction information.

The window consists of five buttons across the bottom of the window. The functions of the buttons are as follows:

Refresh: Updates the main window with the most current data.

file://C:\Documents and Settings\Owner\Local Settings\Temp\~hhCDAC.htm

6/27/2007

Franya Peterson, D.C. 0034

Transaction Entry Overview

Page 5 of 6

Edit: Opens selected transactions in the Unprocessed Transactions Edit window.

Help: Accesses the Help system.

Post: Moves the record details into the Medisoft practice database.

Close: Closes the window.

Related Topics

[Unprocessed Transactions Overview](#)

[Main Window Unprocessed Transactions](#)

[Edit Window Unprocessed Transactions](#)

[Unprocessed Transactions Common Billing Scenarios](#)

[Deleting Unprocessed Transactions](#)

[Setting Up Unprocessed Transactions](#)

[Editing Unprocessed Transactions](#)

[Posting Unprocessed Transactions](#)

[Viewing Unprocessed Transactions](#)

Unprocessed Transactions Edit Window

The Unprocessed Transaction Edit window shares many of the same features as the top section of the Transaction Entry window. While editing transaction users can do tasks such as:

- Customize the grid.
- Make new cases or procedure codes—shortcut key is F8 when the field is selected.
- Search for appropriate transactions by using the Select Case by Transaction Date search for the specific case information without having to sift through an extensive amount of data.
- Add notes to transactions.
- Reorder records.
- Make changes to facility.
- Correct inaccurate data and post records.

Related Topics

[Unprocessed Transactions Overview](#)

[Main Window Unprocessed Transactions](#)

[Edit Window Unprocessed Transactions](#)

[Unprocessed Transactions Common Billing Scenarios](#)

[Deleting Unprocessed Transactions](#)

[Setting Up Unprocessed Transactions](#)

[Editing Unprocessed Transactions](#)

[Posting Unprocessed Transactions](#)

[Viewing Unprocessed Transactions](#)

Unprocessed Transactions Common Billing Scenarios

Scenario One

Problem

A transaction on the Unprocessed Transactions Edit window is listed as: "Case number does not exist."

Solution

The user would select the Case field and press F8 to create a new case.

file://C:\Documents and Settings\Owner\Local Settings\Temp\~hhCDAC.htm

6/27/2007

Franya Peterson, D.C. 0035

Transaction Entry Overview

Page 6 of 6

Scenario Two

Problem

Diagnosis code 1 does not exist. (Error)

Solution

The user would select the Diag 1 field and press F8 to create a new diagnosis code.

Related Topics

[Unprocessed Transactions Overview](#)

[Main Window Unprocessed Transactions](#)

[Edit Window Unprocessed Transactions](#)

[Unprocessed Transactions Common Billing Scenarios](#)

[Deleting Unprocessed Transactions](#)

[Setting Up Unprocessed Transactions](#)

[Editing Unprocessed Transactions](#)

[Posting Unprocessed Transactions](#)

[Viewing Unprocessed Transactions](#)

Installation Instructions for Medisoft Single-User and Medisoft Advanced

Backup

Warning: If you are installing over a previous version of Medisoft, it is very important that you back up your data. Refer to the Medisoft Online Help for instructions on backing up your data.

Standard Installation

1. Insert the Medisoft 12 CD in the local CD-ROM drive. The **Installation** window appears.

Note: If the **Installation** window does not appear automatically, click the **Start** button and select the **Run** command. The **Run** window appears. On the **Run** window in the **Open** field, type **X:\AUTORUN** (where **X** is your CD-ROM drive letter) and click the **OK** button. The **Installation** window appears.

2. On the **Installation** window click **Install Medisoft**. The **Warning** window appears.
3. On the **Warning** window click the **Next** button. The **Welcome** window appears.
4. On the **Welcome** window select the **Installation type** by clicking the radio button next to the type of product you purchased. Click the **Next** button.

Note: The first four digits of the product serial number identify the product type.

5. On the **Software Licenses Agreement** window, click the **I Accept** button. The **Select Installation Type** window appears.
6. On the **Select Installation Type** window, click the **Express Install** radio button.

Note: This choice is the recommended option. To complete a custom software installation, see the Medisoft Custom Installation below.

The **Install Communications Manager** checkbox is selected by default. If you do not wish to install the Communications Manager, uncheck the box. Click the **Next** button. The **Ready to Install** window appears.

7. On the **Ready to Install** window, click the **Next** button. The **Installing** window appears and tracks the progress of the installation.

If you do not have the current .NET framework on your computer, .NET is installed during the installation. The .NET installation on many PCs can take up to 15 minutes.

8. The **Open File – Security Warning** window appears for installing the .NET framework. Click the **Run** button.

Note: If you have the current .NET framework installed on your computer, this window will not appear. Go to step 9.

9. If you chose to install the Communications Manager, the **Communications Manager Installation** window appears. Click the **Next** button.

Note: If you did not choose to install the Communications Manager, go to step 11.

10. Once the installation is complete, the **Communications Manager Installation Completed** window appears. Click **Finish**.

11. The **Installation Completed** window appears. Click **Finish**. The installation program closes.

Option: on the **Installation Completed** window, select the **Launch Medisoft 12** check box.

Click the **Finish** button.

Note: The first time Medisoft opens after installation a data conversion message appears. Consider backing up data before completing data conversion.

If you are working with multiple practices, each time you open a new practice that particular practice also needs to be converted until all practices have been converted to Version 12.

Note: After installation and after the Medisoft 12 launches for the first time, the Registration window appears. Register now or within 30 days after installation. For instructions or questions on registering, click the **Help** button on the Registration window.

Franya Peterson, D.C. 0038

RightFax

7/13/2007 12:57:20 PM

PAGE

1/003

Fax Server

FAX



To: DR. PETERSON
Company:
Fax: 18656870279
Phone:

NDCHealth, now Per-Se Technologies
EDI Customer Support
5222 E Baseline Rd, Suite 101
Gilbert, Arizona 85234

Phone: (800)689-4550
Fax: (480)635-8271

From:
Fax:
Phone:

CC:

NOTES:

CONFIDENTIALITY NOTICE

This facsimile transmission is intended only for the addressee named above. It contains information that is privileged, confidential or otherwise protected from use and disclosure. If you are not the intended recipient, you are hereby notified that any review, disclosure, copying or dissemination, of this transmission, or the taking of any action in reliance on its contents, or other use is strictly prohibited. If you have received this transmission in error, please notify us by telephone immediately so that we can arrange for its return. Thank you for your cooperation.

Franya Peterson, D.C. 0039

Printing Insurance Forms

For an explanation of the boxes on the CMS-1500 Claims form, [click here](#).

For an explanation of the boxes on the HCFA-1500 form, [click here](#).


There are two types of formats that you can choose when printing insurance claim forms. You can choose a format that prints the claim information on a preprinted claim form that you buy separately. Or you can choose a format that prints the boxes and text of a claim form as well as the claim information on blank paper.

Printing Insurance Claims on Preprinted Forms

One way to produce insurance claims is to choose a format that prints the claim information on preprinted forms. You choose this form in the **Open Report** window when printing claims through **Claim Management** or **Transaction Entry**.

Even though you may be using an insurance claim form labeled correctly for the claim form you are trying to print, not all forms have exactly the same layout. Even though a form may have the same questions and blanks as the format, the boxes may not be in exactly the same location. When boxes on the claim form are not where Medisoft expects them to be, the form may not print exactly in the right place.

If you need to adjust the insurance form, follow these steps:

1. First, determine if the whole form is out of alignment, up or down and right or left. If the whole form is out of alignment, proceed with Step 2 below. If there are only a few boxes out of alignment, see [Format/Design Reports-Moving Fields](#).
2. In Medisoft, go to the **Reports** menu and select **Design Custom Reports and Bills**.
3. Go to the **File** menu and select **Open Report** or click the  icon.
4. Select the form you need and click **OK**.
5. Go to the **File** menu and select **Report Properties** to open the **Report Properties** window.
6. Within this window, locate the **Form Offset** section.

7. Using the **Up/Down** arrows, , adjust the form from the **Left** or **Top** of the form in increments of pixels.

If you put a **positive** number in the **Left** offset, the whole form moves to the right.

If you put a **negative** number in the **Left** offset, the whole form moves to the left.

If you put a **positive** number in the **Top** offset, the whole form moves down.

If you put a **negative** number in the **Top** offset, the whole form moves up.

When finished, click **OK** to incorporate the changes. Then save the form by going to the **File** menu and select **Save**.

8. Exit the Report Designer by clicking the **File** menu and selecting **Exit**.
9. The key to this process is trial and error. If you change the offset and the printing is still not centered, try adjusting the setting a little more or in the opposite direction. Continue to change the settings until the form is aligned.

When aligning a form, plan to use quite a number of forms, or print the test settings on plain paper and put your form on top to check alignment.

If the top/bottom and left/right is correct for most fields but there are a few still out of alignment, there are two more options for adjusting. You can move the individual bands by increasing or decreasing their sizes. See the **Bands** tab section of **Report Properties**. You can also move or size individual boxes on the form. See the **Moving Fields Within the Report** section of [Format/Design Reports](#).

mk:@MSITStore:C:\Program%20Files\Medisoft\Bin\MediWin.chm::/Printing_Insurance_... 6/27/2007

Franya Peterson, D.C. 0040

Printing Insurance Forms

Page 2 of 2

Printing CMS- or HCFA-1500 Claims with Forms

Another way to produce insurance claims is to choose a format that prints the claim form boxes and text as well as the claim information. You choose this format in the **Open Report** window when printing claims through **Claim Management** or **Transaction Entry**. To print the claim form along with the claim information, you must choose a format that has "W/Form" in the title. You shouldn't have to adjust the alignment of claim information and the form boxes because they are being printed at the same time on the blank paper.

Reprinting Claims

Page 1 of 1

Reprinting Claims

Reprinting a Single Claim

To reprint a single claim, open the Claim Management window.

Highlight the claim you want to reprint, then click **Reprint Claim**. The Open Report window opens. To reprint a single claim, you do not have to change the claim status.

Reprinting Multiple Claims

You can select multiple claims and send them immediately to the printer in the CMS- or HCFA-1500 format, no matter their status, batch number, or carrier. However, only paper claims can be selected. If you select an electronic claim, you receive an error message and the procedure is canceled.

To reprint multiple claims, hold down the **CTRL** key and click each of the claims you want to print. Click **Reprint Claim** or right-click one of the highlighted claims and select **Reprint Claims**. The program warns you that all selected claims will be assigned a new batch number and status. Click **Yes**.

Choose the claim format and click **OK**. Choose where you want the claims to print: preview, print, or export. Click **Start**. After printing or exporting, the status of these claims is automatically changed to Sent, a new batch number entered, and the current date entered.

Reprinting a Batch of Claims

To reprint a complete batch of claims, in the Claim Management window, highlight one of the claims to be reprinted and click **Change Status**.

In the Change Claim Status/Billing Method window, enter the batch number in the **Batch** field and choose the radio button in front of the option **Sent to Ready to Send**. Click **OK** when done.

Back in the Claim Management window, click **Reprint Claim**. In the Open Report window, select the form of claim you want to use and click **OK**.

In the Print Report Where? window, indicate whether you want to preview the claims or print them directly. (Remember, you can still print if you choose to preview the claims.) Click **Start**.

In the Print window, be sure all settings are correct for your current printer, then click **OK**.

Important: In the Data Selection Questions window, delete the claim number in the claim number range field. If you don't delete this number, only one claim is printed.

Then, in the **Batch Number 1 Match** field, enter the batch number that you want to reprint. When you have done these two tasks in the Data Selection Questions window, click **OK**. The claims are printed or displayed in the Preview Report window, depending on what was indicated in the **Print Report Where?** window.

Box 4

Case Window
Policy 1, 2, or 3 tab
Insured Field

Box 17

Referring Provider
~~edit window~~
~~PINS + ID# tab~~
~~UPIN Field~~

mlc@MSITS

iWin.chm::Reprinting_Claims.... 6/27/2007

Franya Peterson, D.C. 0042

Case - Policy 1, 2, and 3 Tabs

This topic is only applicable when you have Office Hours integrated with a version of Medisoft.

These tabs contain the information about the insurance policies which cover the selected patient. All three tabs contain essentially the same fields, with the following exceptions: The **Policy 1** tab has a **Co-payment Amount** field; in the **Policy 2** tab, the **Capitated Plan** field becomes a **Crossover Claim** field; and this same field is not used at all in the **Policy 3** tab.

- **Insurance 1 (2, 3)**—Insurance carrier records are set up in the **Insurance Carrier: (new)** window. See Insurance Carrier Entry on how to do this. The entry requested here is the insurance carrier's code number. You can search for any carrier that is already set up by clicking the arrow or the Search icon. If the insurance carrier record you need does not appear in the list, press F8 to set it up.
- **Policy Holder 1 (2, 3)**—Enter the chart number of the policy holder. Because of information required on the claim form, the policy holder must be set up in the patient information file. If this person is a patient, then the necessary information is already in the file.

If the policy holder is a guarantor and not a patient, a patient record must be set up. This can be done from the **Case** window by pressing F8. The program automatically assigns the guarantor an account number (chart number). Once the guarantor record is created, you can assign that guarantor to any number of patients by entering the guarantor's patient number in the **Policy Holder** field.

Note: It is not necessary to set up a guarantor before you set up the patient records. You can do it when you reach the **Case** window, **Policy 1, 2 or 3** tab.

- **Relationship to Insured**—Enter the choice by clicking the box and selecting the relationship of the patient to the insured. There are several relationship choices which are allowed in this field—the default is Self. Your choice prints in Box 6 of the CMS- or HCFA-1500 form.
- **Policy Number**—Enter the **Policy Number** provided by the insured. This prints in Box 11 of the CMS- or HCFA-1500 for the primary carrier and Box 9a for other carriers.
- **Group Number**—Enter the **Group Number** provided by the insured. This prints in Box 11 of the CMS- or HCFA-1500 for the primary carrier and Box 9a for other carriers.
- **Claim Number**—This field is required for electronic claims sent in the ANSI format. It is used on property/casualty/auto claims. This number is assigned by the property and casualty payer.
- **Policy Dates**—Enter the **Start and Ending** dates that patient's policy is in force into these fields. You can (1) type the date in MMDDYY order (with no punctuation), or (2) click in the field or on the down arrow to the right of the field and the calendar opens.
- **Assignment of Benefits/Accept Assignment**—This field controls Boxes 13 and 27 of the CMS- or HCFA-1500 claim form. Check the box for this field if the patient assigns the benefits of this policy to the provider and the provider accepts assignment of those benefits. This means that the responsible party for the case authorizes direct payment to the provider or practice from the insurance carrier. For the participating provider of Medicare, it is mandatory that this box is activated.

If the **Assignment of Benefits/Accept Assignment** check box is activated, Box 27 of the CMS- or HCFA-1500 claim form will be marked "Yes." If (1) the check box is activated and (2) the **Signature On File** field is activated (**Patient/Guarantor** window, **Other Information** tab), whatever is selected to print in the **Insurance Carrier** window, **Options** tab, **Insured Signature on File** box will be printed in Box 13.

- **Capitated Plan**—Click the check box if the patient's plan is capitated; leave it blank if not. If this field is checked, enter 100 in the **Insurance Coverage Percents by Service Classification A** field.
- **Deductible Met**—This field is used to indicate whether the patient has met his or her annual deductible. When the deductible is met, click this box. The amount of the deductible paid is displayed in the **Transaction Entry** window. When the full amount has been paid, the program reflects the amount entered in the **Annual**

mk:@MSITStore:C:\Program%20Files\Medisoft\Bin\OH.chm://Case_Policy_1_2_and_3.h... 6/27/2007

Franya Peterson, D.C. 0043

Deductible field in this window in the YTD field in **Transaction Entry**. In other words, if the patient has a \$250 deductible and the Deductible Met check box is checked, then the YTD field also reflects \$250. This field is reset annually.

- **Annual Deductible**—Enter here the carrier's required annual deductible for the selected policy. While editing the policy, the values may not appear in this field, but they should show when you exit the field.
- **Co-payment Amount**—This field appears only in the Policy 1 tab and is used to indicate a co-payment per visit. *Enter the amount of the co-payment. For example, if the co-payment is \$10, enter 10 in the Transaction Entry window.*
- **Insurance Coverage Percent by Service Classification**—The main function of Service Classifications is to provide a more accurate division of the patient and insurance portions when transactions are entered. It is based on the premise that all similar procedures will be reimbursed at the same percentage rate by the majority of carriers.

Because a carrier doesn't normally pay the same percentage for every type of procedure, it is essential that procedures be divided into service classifications in order to assign the proper percentage to each class. These are set up at the time the procedure codes are created and, although they can be changed, they cannot be deleted.

In the **Insurance Coverage Percent by Service Classification** fields, indicate the percentage amount of coverage indicated in the applicable insurance policy. There are eight fields to enter Service Classifications. You assign the fields. Field A is generally used for common procedures, and Field B could be for surgery or lab charges. Field C could be those services that are not covered by most insurance policies, etc.

The values for the Service Classification fields can be anything between 0% and 100%. Place a zero default for procedures not covered by the insurance carrier. Any of these figures can be changed by typing over the number, and the dollar amount charged can be overwritten in **Transaction Entry**.

- **Patient Information**—Some patient demographic information is displayed at the bottom of the window, such as patient name, address, phone numbers, and date of birth. This is for information purposes and cannot be edited.

Case - Miscellaneous Tab

This topic is only applicable when you have Office Hours integrated with Medisoft.

The **Miscellaneous** tab in the **Case** window records outside lab work and entry of lab charges, as well as the CMS- or HCFA-1500 claim form **Local Use A** and **B** fields; **Indicator Code**; **Prior Authorization Number**; **Extra 1, 2, 3, 4** fields; **Primary Care Provider Outside This Practice**; and **Date Last Seen**.

- **Outside Lab Work, Lab Charges**—When you click the check box for **Outside Lab Work**, you indicate that the patient has received outside lab work and the **Lab Charges** field should be completed.

- **Local Use A and Local Use B**—When filing a claim to an insurance carrier, the carrier might require information to be placed in the **Local Use A** and **Local Use B** fields.

If the carrier is Medicare, use **Local Use A** exclusively for Medicaid (MCO) information. If the patient is enrolled in Medicaid, enter the patient's Medicaid number, preceded by "MCO." This information prints in Box 10d of the CMS- or HCFA-1500 form. Medicare requires you to indicate other coverage in addition to Medicaid.

The **Local Use B** field has been designated for different uses depending upon the state and locality. Data entered in this field is used in Box 10d of the CMS- or HCFA-1500 form. If you are dealing with a non-Medicare carrier, enter the box 10d number in this field.

- **Indicator**—The case indicator code is an up to five character user defined alphanumeric code that can be used to help the provider identify claims for auditing purposes. The **Claims Indicator** field in the **Claims** window is one of the possible filters to identify claims. This field is used strictly as a practice management tool.

- **Referral Date**—If the patient was referred to the provider, enter the date of the referral. This field is used for electronic claims sent in the X12 format.

- **Prescription Date**—This field is reserved for hearing and vision claims. Enter the prescription date. This field is used for electronic claims sent in the X12 format.

- **Prior Authorization Number**—The information entered into the **Prior Authorization Number** field print in Box 70 of the CMS- or HCFA-1500 form. The Prior Authorization Number is provided by the insurance carrier.

- **Treatment Information**—Chiropractic only. The five fields that make up the treatment information are used only by Chiropractic providers and require only when chiropractic is indicated in the Type of the Treatment Information window. These fields are required by certain carriers for handling chiropractic CPT claims.

In **Treatment Month/Year**, enter the letter M (for Month) or Y (for Year) and then up to two digits to indicate the number of months or years treatment has been rendered to the patient in this particular month.

In **No. Treatments Month**, enter up to two digits indicating the number of treatments the patient has received during the treatment month.

In **Nature of Condition**, enter a one-character code. Select from the following:

A = Acute

C = Chronic

M = Acute manifestation of chronic condition

The **Date of Manifestation** field is used only if "M" is entered in the **Nature of Condition** field. When completed, enter the date the condition first manifested.

The **Complication Indicator** field requires one character: C if the condition is complicated, or U if the condition is uncomplicated.

- **Extra 1, Extra 2, Extra 3 and Extra 4**—The Extra 1, Extra 2, Extra 3, and Extra 4 fields provided in this

medisoft.com/Programs/OfficeHours/OfficeHours/Case_Miscellaneous.htm 03/12/2007

Franya Peterson, D.C. 0045

window are user-defined fields which can be used for special entries required by insurance carriers.

[Return to top](#)

- **Primary Care Provider Outside of This Practice**—At the bottom of the window is a field for entering the **Outside Primary Care Provider** if one exists. If one does exist, select from names in the list. If the outside provider you need is not in the list, open the **Provider: (new)** window and enter the information. Then return to the Case window, **Miscellaneous** tab, and select that provider in this field.
- **Date Last Seen**—In the **Date Last Seen** field, enter the date by (1) typing it or (2) clicking in the field or on the down arrow to the right of the field and the calendar opens. See Calendar.
- **Patient Information**—Some patient demographic information is displayed at the bottom of the window, such as patient name, address, phone numbers, and date of birth. This is for information purposes and cannot be edited.

Buttons

To review the use of the buttons in this tab, [click here](#) to jump to that information.

[Return to top](#)

Case-Condition Tab

This topic is only applicable when you have Office Hours integrated with Medisoft.

The **Condition** tab in the **Case** window shows information relating to the general status or condition of the patient. Conditions relating to the illness or injury and tracking of symptoms are but a few of the fields in this window. It also includes dates relative to the condition, plus Workers' Compensation information.

- **Injury/Illness/LMP Date**—Enter the date of the injury, illness, or last menstrual period in an MMDDYY format (no punctuation). You can also enter the capital letter G (for "Gradual") or capital letter N (for "Not Applicable").
- **Illness Indicator**—Choose the correct indicator: Illness, Injury or LMP. Select "LMP" if the illness is related to the last menstrual period. This field is used only for electronic media claims.
- **First Consultation Date**—Enter the date the physician first saw this patient for this condition. Enter the date in an MMDDYY format (no punctuation) or click the down arrow next to the field. Select the date from the calendar and click the date to save the date to the field. This date will print in Box 14 of the CMS- or HCFA-1500 claim form.
- **Date Similar Symptoms**—Enter the first date this patient experienced the same or a similar illness. You can also enter the letter G (for "Gradual") or the letter N (for "N/A" – not applicable). This date will print in Box 16 of the CMS- or HCFA-1500 form.
- **Same/Similar Symptoms**—Click this box if the symptoms are the same or similar to those suffered previously. This field is used only for electronic media claims.
- **Employment Related**—Click this box if the presenting problem is related to the patient's employment. Unchecked is for a non-employment related condition. Checking the box will put an "X" in the proper check box of Box 10a of the CMS- or HCFA-1500 claim form.
- **Emergency**—Click the box if the presenting problem was an emergency. Use this field as a management reference.

Accident

- **Related To**—Select the following from the drop-down list if the condition is accident related: Select **Yes** if the presenting problem is accident related; **No** if it is not accident related; or **Auto** if related to an auto accident. If the condition is accident related, but not auto related, Box 10c of the CMS- or HCFA-1500 claim form will be marked. If the presenting problem is an **auto accident**, an "X" will be placed in Box 10b of the CMS- or HCFA-1500 claim form.
- **State**—Because automobile insurance laws vary by state, if the presenting problem is related to an automobile accident, enter the two-letter abbreviation of the state where the auto accident occurred.
- **Nature Of**—This is an electronic claim requirement in some states. Click here to see a list of choices.
- **Last X-Ray Date**—This field is used by a practice which must report to the insurance carrier the date of the last X-rays for the current condition. Enter the date in MMDDYY format (without punctuation) or click in the **Last X-ray Date** field or on the down arrow to the right of the field and the calendar opens. See Calendar.
- **Death/Status**—This code is based on the Karnofsky Performance Status scale and is required by some insurance carriers. Enter the type of Death/Status. Click here to see a list of choices.

Dates

- **Unable to Work**—This is a To and From date range indicating the period of time the patient was unable to work. Enter the beginning date and the cursor moves to the "To" position for the ending date. These dates will print in Box 18 of the CMS- or HCFA-1500 claim form.
- **Total Disability**—This is a To and From date range indicating the period of time the patient was totally disabled. Enter the beginning date and the cursor moves to the "To" position for the ending date. If no beginning date is entered, the cursor skips the ending date field.

ink:@MSITStore:CAProgram%20Files\Medisoft\Bin\OH.chm::Case_Condition.htm

6/27/2007

Franya Peterson, D.C. 0047

- **Partial Disability**—This is a To and From date range indicating the period of time the patient was partially disabled. Enter the beginning date and the cursor moves to the "To" position for you to enter the ending date. If no beginning date is entered, the cursor skips the ending date field.
- **Hospitalization**—This is a To and From date range indicating the period of time the patient was hospitalized. Enter the beginning date and the cursor moves to the "To" position for the ending date. These dates will print in Box 18 of the CMS- or HCFA-1500 claim form.

Workers' Compensation

- **Return to Work Indicator**—Enter your choice indicating the level of work the patient could perform if he or she returned to work. From the list select Limited, Normal, or Conditional.
- **Percent of Disability**—Enter the percentage of disability experienced by the patient. Enter numbers but no percent sign.
- **Last Worked Date**—If applicable, this field is required for electronic claims sent in the ANSI format. Enter the last date the patient worked.

Other

- **Pregnant**—Click this box to indicate if the patient is pregnant. This field is used for electronic claims sent in the ANSI format.
- **Estimated Date of Birth**—If the patient is pregnant, enter the expected date the baby is due. This field is used for electronic claims sent in the ANSI format.
- **Date Assumed Care**—This field is provided for providers who share post-operative care. Enter the date the provider assumed care for this patient. This field is used for electronic claims sent in the ANSI format.
- **Date Relinquished Care**—This field is also provided for providers who share post-operative care. Enter the date the provider relinquished care of the patient. This field is used for electronic claims sent in the ANSI format.
- **Patient Information**—Some patient demographic information is displayed at the bottom of the window, such as patient name, address, phone numbers, and date of birth. This is for information purposes and cannot be edited.

Case Buttons

To review the use of the buttons in this tab, click here to jump to that information.

TRIAL EXHIBIT 66

Registered User: (new)MediSoft

Register | Hardware | Providers | USPS Address | Order Info | Password

Lytec ID: Serial Number: **10100121391257**

Registration Version: **5** Product Version: **1.0**

Product Name: **NDCMedisoft**

Registration Name: **MCLAUGHLIN CHIROPRACTIC CENTER**

Contact: **Franya M. Peterson, D.C.**

Street: **2330 Merchants Drive**

City: **Knoxville** State: **TN**

Zip Code: **37912** Check Address Address status: **Valid**

Practice Specialty: **Chiropractor**

e-mail: **FPeterson06@comcast.net**

Phone: **(865)405-0655** Fax: **(865)687-0279**

Registration Date: **06/18/07**

Number of Users: **1**

Upgraded from: Upgraded to:

Registration Number: **595361689530**

Do not
☒ Mail
☒ e-Mail
☒ Call
☒ Fax

Save
Cancel

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

Trial Exhibit 66

Case No: 4:13-cv-02219-HSG

Date Entered: _____

By: _____

Deputy Clerk

EXHIBIT 25 PLTF.
 WITNESS Peterson DEFT.
 CONSISTING OF 1 PAGES
 DATE 2-24-15
 BEHMKKE REPORTING AND VIDEO SERVICES, INC.

RS-TRUEHEALTH-0000227

TRIAL EXHIBIT 72

Version 12 -- Product Registration

Registered User: (new) Medisort

Register | Hardware | Providers | USPS Address | Order Info | Password

Lylec ID: Serial Number: 10180121483725

Registration Version: 5 Product Version: 13 Do not

Product Name: INDCMedisort Network Professional ☒ Mail

Registration Name: TRUE HEALTH CHIROPRACTIC ☒ e-Mail

Contact: Jeffrey R. Shope, D.C. ☒ Call

Street: 2511 W. Schrock Rd ☒ Fax

City: Westerville State: OH

Zip Code: 43081 Check Address Address status: Valid

Practice Specialty: Chiropractor

e-mail: truehealth@midohio.twcbc.com

Phone: (614)794-1379 Fax: (614)794-1625

Registration Date: 08/16/07

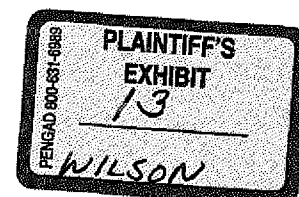
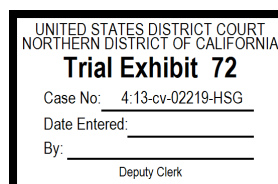
Number of Users: 3

Upgraded from: Upgraded to:

Registration Number: FACAP09EAR05

Save

Cancel



RS-TRUEHEALTH-000001

Version 12 -- VAR Info

Registered User: (new) Medison

Register | Hardware | Providers | USPS Address | **Order Info** | Password

Oracle Order Information

Invoice Number:

SAP Invoice Number:

Order ID:

SKU:

Oracle Street:

Date Shipped:

VAR Information

VAR Number:

VAR Name:

Customer Information

Customer Number:

Customer Name:

RS-TRUEHEALTH-000002

Version 16 – Product Registration

Registered User (new) MidSoft

Register Hardware Providers USPS Address Order Info Password

Lytec ID: Serial Number: 28200121308262

Registration Version: 5 Product Version: 16 Do not:

Product Name: Office Hours Professional for Networks (NT) ☒ Mail

Registration Name: TRUE HEALTH CHIROPRACTIC ☒ e-Mail

Contact: Jeffrey R. Shope, D.C. ☒ Call

Street: 2511 W. Schrock Rd ☒ Fax

City: Westerville State: OH

Zip Code: 43081 Check Address Address status: Valid

Practice Specialty: Chiropractor

e-mail: truehealth@midohio.twcbc.com

Phone: (614)794-1379 Fax:

Registration Date: 11/10/10

Number of Users: 3

Upgraded from: Upgraded to:

Registration Number: 2462957424

Save Cancel

RS-TRUEHEALTH-000003

Version 16 – VAR Info

Registered User: (new) MediSoft

Register	Hardware	Providers	USPS Address	Order Info	Password
Oracle Order Information					
Invoice Number: 4					
SAP Invoice Number: 0					
Order ID: 207643					
SKU: OHPROCS					
Oracle Street: 2511 W SCHROCK					
Date Shipped: 08/23/10					
VAR Information					
VAR Number: 15930					
VAR Name: MARITEC					
Customer Information					
Customer Number: 142078					
Customer Name: TRUE HEALTH CHIROPRACTIC					

Save

Cancel

RS-TRUEHEALTH-000004

Version 17 – Product Registration

Registered User: (new) MediSoft

Register Hardware Providers USPS Address Order Info Password

License ID: Serial Number: 18180121420665

Registration Version: 5 Product Version: 17

Product Name: NDCMedisoft Network Professional

Registration Name: TRUE HEALTH CHIROPRACTIC

Contact: Jeffrey R. Shope, D.C.

Street: 2511 W. Schrock Rd

City: Westerville State: OH

Zip Code: 43081 Check Address Address status: Valid

Practice Specialty: Chiropractor

e-mail: truehealth@midohio.twebc.com

Phone: (614)794-1379 Fax:

Registration Date: 08/29/11

Number of Users: 3

Upgraded from: 18180121420665 Upgraded to:

Registration Number: 18180121420665

Do not

☐ Mail

☒ e-Mail

☒ Call

☒ Fax

Save

Cancel

RS-TRUEHEALTH-000005

Version 17 – VAR Info

Registered User (new) Medication

Register | Hardware | Providers | USPS Address | **Order Info** | Password

Oracle Order Information:

Invoice Number: 0

SAP Invoice Number: 0

Order ID: 222924

SKU: MEDINETWUPG1VD

Oracle Street: 2511 W SCHROCK

Date Shipped: 08/18/11

VAR Information:

VAR Number: 15930

VAR Name: MARITEC

Customer Information:

Customer Number: 142078

Customer Name: TRUE HEALTH CHIROPRACTIC

Save

Cancel

RS-TRUEHEALTH-000006

Version 18 -- Product Registration

Registered User: (new) MediSoft

Register | Hardware | Providers | USPS Address | Order Info | Password

Lytec ID: Serial Number: 10100000000000000000

Registration Version: 5 Product Version: 1.0.0.0

Product Name: NDCMedisoft Network Professional

Registration Name: TRUE HEALTH CHIROPRACTIC

Contact: Shope, Jeffrey

Street: 2511 W. Schrock Rd

City: Westerville State: OH

Zip Code: 43081 Check Address Address status: Not Validated

Practice Specialty: Chiropractor

e-mail: truehealth@midohio.truehealth.com

Phone: (614)794-1379 Fax:

Registration Date: 10/31/13

Number of Users: 3

Upgraded from: Upgraded to:

Registration Number: 10100000000000000000

Do not

☒ Mail

☒ e-Mail

☒ Call

☒ Fax

Save

Cancel

RS-TRUEHEALTH-000007

Version 18 - VAR Info

Registered User: (new) MediSoft

Register	Hardware	Providers	USPS Address	Order Info	Password
Oracle Order Information					
Invoice Number: <input type="text"/>					
SAP Invoice Number: <input type="text" value="0"/>					
Order ID: <input type="text" value="1563063"/>					
SKU: <input type="text" value="MEDINETW"/>					
Oracle Street: <input type="text" value="29789 Hilliard Blvd"/>					
Date Shipped: <input type="text" value="01/02/13"/>					
VAR Information					
VAR Number: <input type="text" value="1067428"/>					
VAR Name: <input type="text" value="Maritec, Inc."/>					
Customer Information					
Customer Number: <input type="text" value="1067429"/>					
Customer Name: <input type="text" value="Maritec, Inc."/>					

RS-TRUEHEALTH-000008

Site Information

Page 1 of 1

TRUE HEALTH CHIROPRACTIC

Contact

SANDRA

Address 2511 W SCHROCK
City / St / Zip WESTERVILLE OH 43081
Phone 614 794 1379
Fax

Sid 5827275

Call History 30 Days
90 Days
365 Days

Model	Description	Serial#	Ship Date	Prod Line
MACM	MEDISOFT MONTH SUPPORT AGRMENT (1MO)			MESA 1 MO
MACM	MEDISOFT MONTH SUPPORT AGRMENT (1MO)			MESA 1 MO

RS-TRUEHEALTH-000009

Category Call Summary With Abstract [Delayed]

Page 1 of 1

Category Call Summary With Abstract [Delayed]

Click here for a description of the report

SID 5827275

Category		Detail		Edit Criteria						
Category		Total		% Of Total						
Call#	Open	Cr Date	Last Date	Owner	Sid	Site	Model	Category	Subcategory	Abstract
MACM - MONTHLY AGREEMENT CONTRACT - MEDISOFT										
10715348	N	08/30/07	08/31/07	mjohnson	5827275	TRUE HEALTH CHIROPRACTIC	MTSA	MACM	CREATED	Abstract: PURCHASED 1 MONTH TECHNICAL SUPPORT AGREEMENT-MEDISOFT 08/30/2007 20:21:03 mjohnson: PURCHASED 1 MONTH TECHNICAL SUPPORT AGREEMENT-MEDISOFT 08/30/2007 20:22:50 mjohnson: Support Agreement Confirmation Date: 08/30/2007 To: TRUE HEALTH CHIROPRACTIC Attn: SANDRA RE: Confirmation of Technical Support Contract request Dear Valued Customer; We have received your request and credit card authorization to sign up for a 1 MONTH Technical Support Agreement. The total amount billed to your credit card was \$129.00. This Agreement is effective as of the date noted on this letter and will expire 10/01/07. This letter is your confirmation that your contract has been processed successfully and is now active. Please keep this letter for your records. Your confirmation number for your payment is 157457 and your customer number is 142076. Your technical support Ticket Number is 14771646. Please reference this customer number and/or the Call ID when you contact the Technical Support Department for assistance. Providing these numbers will expedite the process of accessing your records. Please keep your customer number available to provide to technical support for any future assistance you may need. You are now approved for technical support until the expiration date listed above. In order to utilize this Technical support agreement you will need to call our support department at 1-800-334-4006 and speak to the next available representative. We thank you for your business and look forward to assisting your technical support needs. Welcome to the McKesson family! Customer Support 800-334-4006 08/31/2007 19:38:51 mjohnson: RIGHT FAX CONFIRMED THAT FAX WAS SENT SUCCESSFULLY
10916813	N	04/11/08	05/09/08	epedersen	5827275	TRUE HEALTH CHIROPRACTIC	MEDISOFT	MACM	CREATED	Abstract: PURCHASED 1 MONTH TECHNICAL SUPPORT AGREEMENT-MEDISOFT 04/11/2008 14:19:16 thazard: PURCHASED 1 MONTH TECHNICAL SUPPORT AGREEMENT-MEDISOFT 04/11/2008 14:21:47 thazard: Support Agreement Confirmation Date: 04/11/08 To: TRUE HEALTH CHIROPRACTIC Attn: SANDRA RE: Confirmation of Technical Support Contract request Dear Valued Customer; We have received your request and credit card authorization to sign up for a 1 MONTH Technical Support Agreement. The total amount billed to your credit card was \$293.00. This Agreement is effective as of the date noted on this letter and will expire 05/11/08. This letter is your confirmation that your contract has been processed successfully and is now active. Please keep this letter for your records. Your confirmation number for your payment is 170783 and your customer number is 142076. Your technical support Ticket Number is 10916813. Please reference this customer number and/or the Call ID when you contact the Technical Support Department for assistance. Providing these numbers will expedite the process of accessing your records. Please keep your customer number available to provide to technical support for any future assistance you may need. You are now approved for technical support until the expiration date listed above. In order to utilize this technical support agreement you will need to call our support department at 1-800-334-4006 and speak to the next available representative. We thank you for your business and look forward to assisting your technical support needs. Welcome to the McKesson family! Customer Support 800-334-4006 05/09/2008 11:19:39 epedersen: Left open in error. closing call.
DATA - LY: ELECTRONIC DATA TRANSMISSION ISSUES										
10922028	N	04/17/08	04/17/08	salon	5827275	TRUE HEALTH CHIROPRACTIC	MAPA	DATA	SEE ABSTRACT	Abstract: TBA EXP 5/11/08 PROCEDURE CODES QUESTIONS 04/17/2008 12:38:02 salon: TBA EXP 5/11/08 PROCEDURE CODES QUESTIONS 04/17/2008 12:38:02 salon: general questions
DATA NTRY - DATA ENTRY INTO PRODUCT										
10725841	N	09/12/07	09/12/07	estonell	5827275	TRUE HEALTH CHIROPRACTIC	MNPPA	DATA NTRY	CPTOXYMLNK	Abstract: 10/25/07** WANTED ENTRIES FOR CERTAIN DATES TO SHOW ONLY IN TRANSACTION ENTRY 09/12/2007 13:09:27 estonell: PROCT TYPE & SVC PACK: v11h3mnpa REASON: Sandra called because she wanted the program to show entries for only certain dates and their totals only. ERROR CODES/MESSAGES: none TROUBLESHOOTING: I had her go and force download numbers then turn off the show superbill in the program options. ADDITIONAL INFO: When she did this she had what she wanted to see RESOLUTION: If she has other issues she will call back.
M OLD VER - MEDISOFT OLDER VERSIONS 1998 TO 2005										
11289680	N	12/16/09	12/16/09	pwilson	5827275	TRUE HEALTH CHIROPRACTIC	MEDISOFT	M OLD VER	REGISTRATION	Abstract: GETTING A ERROR AND NO INFO IN KB ON VERSION 12 12/16/2009 10:55:37 pwilson: USER REFERRED TO VAR and walked through how to find ori.
PROGRAM - LY: PROGRAM QUESTION/ISSUES										
10732753	N	09/19/07	09/19/07	mshaffer	5827275	TRUE HEALTH CHIROPRACTIC	MNPPA	PROGRAM	SEE ABSTRACT	Abstract: 10/03/2007**CLAIMS 09/19/2007 12:44:55 mshaffer: PROCT TYPE & SVC PACK: REASON: ERROR CODES/MESSAGES: TROUBLESHOOTING: ADDITIONAL INFO: RESOLUTION: WEBEX SESSION #: 09/19/2007 12:51:24 mshaffer: 10/03/2007** -> 10/03/2007**CLAIMS 09/19/2007 12:51:24 mshaffer: PROCT TYPE & SVC PACK: MAPPA REASON: CUSTOMER HAD AN ISSUE WITH A CLAIM NOT CREATING ERROR CODES/MESSAGES: NONE TROUBLESHOOTING: ADDITIONAL INFO: RESOLUTION: SHE CHANGED THE INSURANCE BUT NEVER UPDATED. SHE USED THE UPDATE ALL BUTTON AND ALL IS WELL... J WEBEX SESSION #: NONE

Grand Total 6

cbs

cat_abs

RS-TRUEHEALTH-0000010

TRIAL EXHIBIT 73

ANDERSON + WANCA
3701 ALGONQUIN ROAD, SUITE 760
ROLLING MEADOWS, IL 60008
TELEPHONE 847/368-1500 FACSIMILE 847/368-1501

ROBERT C. SCHUBERT S.B.N. 62684
WILLEM F. JONCKHEER S.B.N. 178748
SCHUBERT JONCKHEER & KOLBE LLP
Three Embarcadero Center, Suite 1650
San Francisco, California 94111
Telephone: (415) 788-4220
Facsimile: (415) 788-0161
rschubert@schubertlawfirm.com
wjonckheer@schubertlawfirm.com

Local Counsel for Plaintiff

BRIAN J. WANCA (*admitted PHV*)
RYAN M. KELLY (*admitted PHV*)
ROSS M. GOOD (*admitted PHV*)
ANDERSON & WANCA
3701 Algonquin Road, Ste 760
Rolling Meadows, IL 60008
Telephone: (847)368-1500
Facsimile: (847)368-1501
bwanca@andersonwanca.com

Counsel for Plaintiff

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

TRUE HEALTH CHIROPRACTIC, INC.,
and MCLAUGHLIN CHIROPRACTIC
ASSOCIATES, INC., individually and as
the representatives of a class of similarly-
situated persons,

Plaintiffs,

v.

MCKESSON CORPORATION,
MCKESSON TECHNOLOGIES INC., and
JOHN DOES 1-10,

Defendants.

No. 3:13-CV-002219-JST

PLAINTIFF'S NOTICE OF TAKING
RULE 30(b)(6) DEPOSITION

///
///
///

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA
Trial Exhibit 73
Case No: 4:13-cv-02219-HSG
Date Entered: _____
By: _____
Deputy Clerk



ANDERSON + WANCA
3701 ALGONQUIN ROAD, SUITE 760
ROLLING MEADOWS, IL 60008
TELEPHONE 847/368-1500 FACSIMILE 847/368-1501

Tiffany Cheung
TCheung@mofo.com
Ben Patterson
BPatterson@mofo.com
MORRISON & FOERSTER LLP
425 Market Street
San Francisco, CA 94105
Fax: 415-368-7522

PLEASE TAKE NOTICE that Plaintiff, by and through its attorneys, shall take the 30(b)(6) deposition of a corporate representative(s) most knowledgeable on the issues listed below before a qualified notary public on the date and at the place and time set forth below:

DEPONENT: Corporate Representative of MCKESSON CORPORATION (hereinafter "MCKESSON") most knowledgeable on the issues listed below

DATE: July 15, 2015
TIME: 1:00 p.m.
PLACE: Alston & Bird, LLP
One Atlantic Center
1201 West Peachtree Street
Atlanta, GA 30309

MCKESSON is respectfully reminded of its obligation pursuant to Rule 30(b)(6) of the Federal Rules of Civil Procedure to designate one or more of its officers, directors, agents or other persons who consent to testify on behalf of MCKESSON to respond to questions on each of the subject matters listed below.

Plaintiff requests that McKesson produce the individual(s) with the most knowledge of the following topics:

DEFINITIONS:

"MCKESSON" means MCKESSON CORPORATION and MCKESSON TECHNOLOGIES, INC., and any of their agents, attorneys, employees, affiliates, parent company, subsidiaries, officers, directors, or anyone engaged or retained in any way to transmit facsimile transmissions.

ANDERSON + WANCA
3701 ALGONQUIN ROAD, SUITE 760
ROLLING MEADOWS, IL 60008
TELEPHONE 847/368-1500 FACSIMILE 847/368-1501

1 **"MTT"** means MCKESSON TECHNOLOGIES, INC., and any of their agents, attorneys,
2 employees, affiliates, parent companies, subsidiaries, officers, directors, or anyone engaged or
3 retained in any way to transmit facsimile transmissions.

4 **"Slingshot"** means SLINGSHOT TECHNOLOGIES CORPORATION, a Pennsylvania
5 corporation, and any of its agents, attorneys, employees, shareholders, officers, directors, affiliates,
6 parent companies, or subsidiaries.

7 **"Accelero"** means ACCELERO COMMUNICATIONS, INC., a Pennsylvania corporation
8 and any of its agents, attorneys, employees, shareholders, officers, directors, affiliates, parent
9 company, or subsidiaries.

10 **"PROFAX"** means PROFAX, INC., a New York corporation, and any of its agents,
11 attorneys, employees, shareholders, officers, directors, affiliates, parent companies, subsidiaries,
12 members, managers, or anyone engaged or retained in any way to transmit facsimile transmissions.

13 **"WESTFAX"** means WESTFAX, INC. and any of its agents, attorneys, employees, officers,
14 directors, affiliates, parent companies, and subsidiaries.

15 **"Alert"** means Alert Solutions, Inc. f/k/a BLI Messaging, Inc., and any of your agents,
16 attorneys, employees, shareholders, officers, directors, affiliates, parent companies, subsidiaries,
17 members, or managers.

18 **"EasyLink"** means EasyLink Services International Corporation, and any of its agents,
19 attorneys, employees, shareholders, officers, directors, affiliates, parent companies, subsidiaries, or
20 anyone engaged or retained in any way to transmit facsimile transmissions.

21 TOPICS:

- 22
- 23 1. The circumstances surrounding the negotiation and execution of any and all
- 24 agreements entered into between McKesson and Slingshot/Accelero.
- 25 2. The circumstances surrounding all communications between McKesson and
- 26 Slingshot/Accelero.
- 27 3. The circumstances surrounding the fax transmissions that were sent by
- 28 Slingshot/Accelero on behalf of McKesson, including:

ANDERSON + WANCA
3701 ALGONQUIN ROAD, SUITE 760
ROLLING MEADOWS, IL 60008
TELEPHONE 847/368-1500 FACSIMILE 847/368-1501

- a. how the fax numbers of the intended recipients were obtained;
 - b. where the fax numbers of the intended recipients were obtained;
 - c. who determined the fax numbers of the intended recipients;
 - d. The geographic locations or targeted markets to which the faxes were sent;
 - e. the identity of those persons to which the faxes were sent;
4. The circumstances surrounding how the RS-TRUEHEALTH 000345, RS-TRUEHEALTH 000350, and RS-TRUEHEALTH 000351 spreadsheets were created.
 5. McKesson's investigation to locate and produce all information sent or received by Slingshot/Accelero.
 6. McKesson's investigation to locate and produce all information regarding fax advertisements sent by Slingshot/Accelero on behalf of McKesson.
 7. The circumstances surrounding any representations that the persons to whom McKesson's fax advertisements were sent by Slingshot/Accelero had given their prior express invitation or permission to receive the faxes, including:
 - a. The representations made in Defendants' Response to Interrogatory Regarding Prior Express Invitation or Permission, dated April 2, 2015;
 - b. The representations made in Defendants' Supplemental Response to Interrogatory Regarding Prior Express Invitation or Permission, dated June 5, 2015;
 - c. The specific search criteria used to create Exhibit A (RS-TRUEHEALTH 000399);
 - d. The specific search criteria used to create Exhibit B (RS-TRUEHEALTH 000400);
 - e. The specific search criteria used to create Exhibit C (RS-TRUEHEALTH 000401);
 - f. The specific search criteria used to create Supplemental Exhibit A (RS-TRUEHEALTH 000532);
 - g. The existence of all documents McKesson claims any recipient had given their prior express invitation or permission to receive the faxes.

ANDERSON + WANCA
3701 ALGONQUIN ROAD, SUITE 760
ROLLING MEADOWS, IL 60008
TELEPHONE 847/368-1500 FACSIMILE 847/368-1501

- 1 8. The representations made in the letter dated April 22, 2015 from Tiffany Cheung to
2 Glenn Hara matching fax templates to certain spreadsheets of fax transmission data.
- 3 9. The circumstances surrounding the production of 35 Excel spreadsheets, "2015-04-
4 08 (RS-TRUEHEALTH 000402-000436).zip"
- 5 10. The circumstances surrounding the production of 45 fax templates and 3 Excel
6 spreadsheets "2015-04-02 (RS-TRUEHEALTH 000352-000401).zip."
- 7 11. The circumstances surrounding the production of documents labeled RS-
8 TRUEHEALTH 000438-000531.
- 9 12. All policies, procedures, or other practices used by McKesson for the purpose of
10 seeking or obtaining prior express permission or invitation for Slingshot/Accelero to
11 send fax advertisements on behalf of Defendants.
- 12 13. Any communications between McKesson and Slingshot/Accelero regarding the
13 Telephone Consumer Protection Act or TCPA, 47 U.S.C. § 227.
- 14 14. The policies and procedures concerning the retention of the advertisements sent by
15 Slingshot on behalf of McKesson.
- 16 15. Knowledge of the person or persons responsible for sending advertisements by fax
17 using Slingshot/Accelero.
- 18 16. The procedures used by the person or persons responsible for sending advertisements
19 by fax using Slingshot/Accelero.
- 20 17. Knowledge regarding the corporate structure of McKesson Corp., MTL, PPS and its
21 subsidiaries or business units.
- 22 18. The circumstances surrounding all communications between McKesson and ProFax.
- 23 19. The circumstances surrounding all communications between McKesson and
24 WestFax.
- 25 20. The circumstances surrounding all communications between McKesson and Quick
26 Link.
- 27 21. The circumstances surrounding all communications between McKesson and Alert
28 Solutions.
22. The circumstances surrounding all communications between McKesson and Easy
Link.
23. The circumstances surrounding all fax broadcasts conducted by ProFax, WestFax,
QuickLink, Alert Solutions and/or EasyLink on behalf of McKesson.

ANDERSON + WANCA
3701 ALGONQUIN ROAD, SUITE 760
ROLLING MEADOWS, IL 60008
TELEPHONE 847/368-1500 FACSIMILE 847/368-1501

1 24. The entity that paid for the services of Slingshot/Accelero.

2 25. McKesson's answers to Plaintiff's written discovery.

3 26. The identity of all persons employed by McKesson who obtained oral permission
4 from recipients to receive fax advertisements sent by Slingshot/Accelero on behalf of
5 McKesson, including:

6 a. Any training or instructions provided to McKesson's employees in
7 regard to obtaining such oral permission; and

8 b. Any practices, policies, or procedures provided to McKesson's
9 employees for documenting such oral permission.

10 27. The case caption and jurisdiction of the case that Ken Sponsler was retained that
11 related to a junk fax case where Plaintiff's counsel subpoenaed the telephone
12 carriers for subscriber information.

13 The oral examination will continue from date to date until completed. You are invited to
14 attend and cross-examine.

15 TRUE HEALTH CHIROPRACTIC, INC., an Ohio
16 corporation, and MCLAUGHLIN CHIROPRACTIC
17 ASSOCIATES, INC., a Tennessee corporation,
18 individually and as the representative of a class of
19 similarly-situated persons,

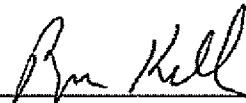
20 
21 One of Plaintiffs' Attorneys

22 Brian J. Wanca
23 Ryan M. Kelly
24 Ross M. Good
25 ANDERSON + WANCA
26 3701 Algonquin Road, Suite 760
27 Rolling Meadows, IL 60008
28 Phone: 847-368-1500
Fax: 847-368-1501
[Pro Hac Vice]

CERTIFICATE OF SERVICE

I, the undersigned, state that on July 8, 2015, I served a true and correct copy of this *Plaintiffs' Notice of Taking Rule 30(b)(6) Deposition* on the parties listed below by electronic mail to the below listed e-mail addresses before 5:00 p.m.

Tiffany Cheung (SBN 211497)
TCheung@mofo.com
Ben Patterson (SBN 268696)
BPatterson@mofo.com
MORRISON & FOERSTER LLP
425 Market Street
San Francisco, CA 94105
Fax: 415-268-7522



One of Plaintiffs' Attorneys

Brian J. Wanca (*admitted PHV*)
Ryan M. Kelly (*admitted PHV*)
Ross M. Good (*admitted PHV*)
ANDERSON + WANCA
3701 Algonquin Road, Suite 760
Rolling Meadows, IL 60008
Telephone: (847) 368-1500
Facsimile: (847) 368-1501

ROBERT C. SCHUBERT
WILLEM F. JONCKHEER
SCHUBERT JONCKHEER & KOLBE LLP
Three Embarcadero Center, Suite 1650
San Francisco, CA 94111
Telephone: 415-788-4220
Fax: 415-788-0161
rschubert@schubertlawfirm.com
wjonckheer@schubertlawfirm.com

George D. Jonson (*admitted PHV*)
Matthew Stubbs (*admitted PHV*)
MONTGOMERY, RENNIE & JONSON
2100 Society Bank Center
36 East Seventh Street
Cincinnati, OH 45202
Telephone: 513-241-4722

TRIAL EXHIBIT 75

(EXHIBIT FILED UNDER SEAL)

TRIAL EXHIBIT 76
(EXHIBIT FILED UNDER SEAL)

TRIAL EXHIBIT 89

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2007

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-13252

McKESSON CORPORATION

A Delaware Corporation

I.R.S. Employer Identification Number

94-3207296

McKesson Plaza

One Post Street, San Francisco, CA 94104

Telephone (415) 983-8300

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA
Trial Exhibit 89
Case No: 4:13-cv-02219-HSG
Date Entered: _____
By: _____
Deputy Clerk

Securities registered pursuant to Section 12(b) of the Act:

<i>(Title of Each Class)</i>	<i>(Name of Each Exchange on Which Registered)</i>
Common Stock, \$0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, September 2006, was approximately \$15.5 billion.

Number of shares of common stock outstanding on April 30, 2007: 297,204,662

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for its 2007 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

McKESSON CORPORATION**TABLE OF CONTENTS**

<u>Item</u>	<u>Page</u>
PART I	
1. Business.....	3
1A. Risk Factors.....	10
1B. Unresolved Staff Comments	10
2. Properties.....	10
3. Legal Proceedings	10
4. Submission of Matters to a Vote of Security Holders	10
Executive Officers of the Registrant	11
PART II	
5. Market for the Registrant's Common Equity, Related Stockholder Matters, Issuer Purchases of Equity Securities and Stock Price Performance Graph.....	12
6. Selected Financial Data.....	13
7. Management's Discussion and Analysis of Results of Operations and Financial Condition	13
7A. Quantitative and Qualitative Disclosures About Market Risk.....	14
8. Financial Statements and Supplementary Data	14
9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	14
9A. Controls and Procedures.....	14
9B. Other Information.....	14
PART III	
10. Directors, Executive Officers and Corporate Governance	14
11. Executive Compensation.....	15
12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.....	15
13. Certain Relationships and Related Transactions and Director Independence	17
14. Principal Accounting Fees and Services	18
PART IV	
15. Exhibits and Financial Statement Schedule.....	19
Signatures.....	20

McKESON CORPORATION

PART I

Item 1. Business

General

McKesson Corporation (“McKesson,” the “Company,” the “Registrant,” or “we” and other similar pronouns), is a Fortune 18 corporation providing supply, information and care management products and services designed to reduce costs and improve quality across the healthcare industry.

The Company’s fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references in this document to a particular year shall mean the Company’s fiscal year.

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the “Exchange Act”), as amended, are available free of charge on our Web site (www.mckesson.com under the “Investors – SEC Filings” caption) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (“SEC” or the “Commission”). The content on any Web site referred to in this Annual Report on Form 10-K is not incorporated by reference into this report, unless expressly noted otherwise.

Business Segments

We conduct our business through three segments. Through our Pharmaceutical Solutions segment, we are a leading distributor of ethical and proprietary drugs, and health and beauty care products throughout North America. This segment also provides medical management and specialty pharmaceutical solutions for biotech and pharmaceutical manufacturers, patient and other services for payors, software and consulting and outsourcing services to pharmacies and, through its investment in Parata Systems, LLC (“Parata”), sells automated pharmaceutical dispensing systems for retail pharmacies. Our Medical-Surgical Solutions segment distributes medical-surgical supplies, first-aid products and equipment, and provides logistics and other services within the United States and Canada. Our Provider Technologies segment delivers enterprise-wide patient care, clinical, financial, supply chain, and strategic management software solutions, pharmacy automation for hospitals, as well as connectivity, outsourcing and other services, to healthcare organizations throughout North America, the United Kingdom and other European countries. Its customers include hospitals, physicians, homecare providers, retail pharmacies and payors. The Company’s strategy is to create strong, value-based relationships with customers, enabling us to sell additional products and services to these customers over time.

Net revenues for our segments for the last three years were as follows:

<i>(Dollars in billions)</i>	2007		2006		2005	
Pharmaceutical Solutions	\$ 88.7	95%	\$ 83.4	96%	\$ 75.9	96%
Medical-Surgical Solutions	2.4	3	2.0	2	1.9	2
Provider Technologies	1.9	2	1.6	2	1.3	2
Total	\$ 93.0	100%	\$ 87.0	100%	\$ 79.1	100%

Pharmaceutical Solutions

McKesson Pharmaceutical Solutions consists of the following businesses: McKesson U.S. Pharmaceutical, McKesson Canada, McKesson Health Solutions, McKesson Pharmacy Systems, McKesson Medication Management and McKesson Specialty Distribution. We also own an approximate 49% interest in Nadro, S.A. de C.V. (“Nadro”) and an approximate 39% interest in Parata.

U.S. Pharmaceutical Distribution: This business supplies pharmaceuticals and other healthcare related products to customers in three primary customer segments: 1) retail national accounts (including national and regional chains, food/drug combinations, mail order pharmacies and mass merchandisers); 2) independent retail pharmacies, and; 3) institutional healthcare providers (including hospitals, health systems, integrated delivery networks, clinics and other acute-care facilities and long-term care providers).

McKESSON CORPORATION

Our U.S. Pharmaceutical business operates and serves thousands of customer locations through a network of 30 distribution centers, as well as a master redistribution center, a strategic redistribution center and a repackaging facility, serving all 50 states and Puerto Rico. We invest in technology and other systems at all of our distribution centers to enhance safety, reliability and the best product availability for our customers. For example, in all of our distribution centers we use Acumax® Plus, a Smithsonian award-winning technology, which integrates and tracks all internal functions, such as receiving, put-away and order fulfillment. Acumax® Plus uses bar code technology, wrist-mounted computer hardware, and radio frequency signals to provide our customers with real-time product availability and industry-leading order quality and fulfillment at up to 99.9% accuracy. In addition, we offer Mobile ManagerSM, which integrates portable handheld technology with Acumax® Plus to give customers complete ordering and inventory control. We also offer Supply Management OnlineSM, an Internet-based tool that provides item look-up and real-time inventory availability as well as ordering, purchasing, third-party reconciliation and account management functionality. Together, these features help ensure that our customers have the right products at the right time for their facilities and patients.

To maximize distribution efficiency and effectiveness, we follow the Six Sigma methodology — an analytical approach that emphasizes setting high quality objectives, collecting data and analyzing results to a fine degree in order to improve processes, reduce costs and errors. Furthermore, we continue to implement information systems to help achieve greater consistency and accuracy both internally and for our customers.

Our U.S. Pharmaceutical Distribution business' major value-added offerings, by customer group, include the following:

Retail National Accounts — Business solutions that help national accounts increase revenues and profitability:

- Central Fill — Prescription refill service that enables pharmacies to refill prescriptions remotely, faster, more accurately and at a lower cost, while reducing inventory levels and improving customer service.
- Re-Distribution Centers — Two large facilities that offer access to inventory for single source warehouse purchasing, including pharmaceuticals and biologicals. These distribution centers also provide the foundation for a two-tiered distribution network that supports best-in-class direct store delivery.
- RxPakSM — Bulk repackaging service that leverages our purchasing power and supplier relationships to provide pharmaceuticals at reduced prices, help increase inventory turns and reduce working capital investment.
- Inventory Management — An integrated solution comprising forecasting software and automated replenishment technologies that reduces inventory carrying costs.

Independent Retail Pharmacies — Solutions for managed care contracting, branding and advertising, merchandising and purchasing that help independent pharmacists focus on patient care while improving profitability:

- Health Mart® — Franchise program that provides independent pharmacies with managed care that drives Pharmacy Benefit Manager recognition, branding that drives consumer recognition, in-store execution programs that drive manufacturer recognition and community advocacy programs that drive industry recognition.
- AccessHealth® — Comprehensive managed care and reconciliation assistance services that help independent pharmacies save time, access competitive reimbursement rates and improve cash flow.
- McKesson OneStop Generics® — Generic pharmaceutical purchasing program that helps pharmacies maximize their cost savings with a broad selection of rebate-eligible generic drugs, lower up-front pricing and one-stop shopping.
- Prefer Rx — Discount program that offers aggressive prices on more than 100 branded drugs, helping retail independent pharmacies increase margins and eliminate rebate paperwork.
- Sunmark® — Complete line of more than 1,000 products that provide retail independent pharmacies with value-priced alternatives to national brands.
- FrontEdgeTM — Strategic planning, merchandising and price maintenance program that helps independent pharmacies maximize store profitability.
- McKesson Home Health Care — Comprehensive line of more than 1,800 home health care products, including durable medical equipment (“DME”), self-care supplies and disposables from national brands and the high-margin Sunmark line.

Institutional Healthcare Providers — Electronic ordering/purchasing and supply chain management systems that help improve efficiencies, save labor and improve asset utilization:

McKESON CORPORATION

- **Fulfill-Rx™** — Ordering and inventory management system that integrates McKesson pharmaceutical distribution services with our automation solutions, thus empowering hospitals to optimize the often complicated and disjointed processes related to unit-based cabinet replenishment and inventory management.
- **Asset Management** — Award-winning inventory optimization and purchasing management program that helps institutional providers lower costs while ensuring product availability.
- **SKY Packaging** — Blister-format packaging containing the most widely prescribed dosages and strengths in generic oral solid-medications. Enables acute care, long-term care and institutional pharmacies to provide cost-effective, uniform packaging.
- **McKesson 340B Manager** — Software solution that manages, tracks, and reports on the medication replenishment associated with the federal 340B Drug Pricing Program, helping institutional providers maximize their 340B return.
- **AccessHealth®** — Expert service for third-party contracting and payment consolidation that helps institutional providers save time and accelerate reimbursement.
- **High Performance Pharmacy** — Framework that identifies and categorizes hospital pharmacy best practices, allowing health system executives and pharmacy leaders to improve clinical outcomes and financial results.

International Pharmaceutical Distribution: McKesson Canada Corporation, a wholly-owned subsidiary, is the largest pharmaceutical distributor in Canada. We also own an approximate 49% interest in Nadro, the leading pharmaceutical distributor in Mexico.

Investment in Parata: We own an approximate 39% interest in Parata which sells automated pharmacy and supply management systems and services to retail and institutional outpatient pharmacies.

Payor Group: The following suite of services and software products is marketed to payors, employers and government organizations to help manage the cost and quality of care:

- Disease management programs to improve the health status and health outcomes of patients with chronic conditions;
- Nurse triage services to provide health information and recommend appropriate levels of care;
- Clinical and analytical software to support utilization, case and disease management workflow;
- Business intelligence tools for measuring, reporting and improving clinical and financial performance;
- InterQual® Criteria for clinical decision support; and
- Claims performance solutions to facilitate accurate and efficient medical claim payment.

McKesson Specialty Distribution: This business' product-specific solutions are directed towards manufacturers, payors and physicians to enable delivery and administration of high-cost, often injectable, bio-pharmaceutical drugs used to treat patients with chronic disease. The business facilitates patient and provider access to specialty pharmaceuticals across multiple delivery channels (direct-to-physician wholesale, patient-direct specialty pharmacy dispensing and access to retail pharmacy), provides clinical support and treatment compliance programs that help patients stay on complex therapies and offers reimbursement, data collection and analysis services.

Medical Surgical Solutions

Our Medical-Surgical Solutions segment provides medical-surgical supply distribution, equipment, logistics and other services to healthcare providers that include physicians' offices, surgery centers, extended care facilities, homecare and occupational health sites through a network of 29 distribution centers within the U.S. This segment is the leading provider of supplies to the full range of alternate-site healthcare facilities, including physicians' offices, clinics and surgery centers (primary care), long-term care, occupational health facilities and homecare sites (extended care). Through a variety of technology products and services geared towards the supply chain, Medical-Surgical Solutions is focused on helping its customers operate more efficiently while providing the industry's most extensive product offering, including its own private label line. This segment also includes ZEE® Medical, North America's leading provider of first aid, safety and training solutions, providing services to industrial and commercial customers. This business offers an extensive line of products and services aimed at maximizing productivity and minimizing the liability and cost associated with workplace illnesses and injuries.

McKESSON CORPORATION

Provider Technologies

Our Provider Technologies segment provides a comprehensive portfolio of software, automation, support and services to help healthcare organizations improve quality and patient safety, reduce the cost and variability of care and better manage their resources and revenue stream. This segment markets its products and services to integrated delivery networks, hospitals, physician practices, home health providers, retail pharmacies and payors. The segment also sells its solutions internationally through subsidiaries and/or distribution agreements in Canada, the United Kingdom, Ireland, France, the Netherlands, Australia, New Zealand and Israel.

The product portfolio for the Provider Technologies segment is designed to address a wide array of healthcare clinical and business performance needs ranging from medication safety and information access to revenue cycle management, resource utilization and physician adoption of electronic health records ("EHR"). Analytics software enables organizations to measure progress as they automate care processes for optimal clinical outcomes, business and operating results, and regulatory compliance. To ensure that organizations achieve the maximum value for their information technology investment, the Provider Technologies segment also offers a wide range of services to support the implementation and use of solutions as well as assist with business and clinical redesign, process re-engineering and staffing (both information technology and back-office).

Key solution areas are as follows:

Clinical management: Horizon Clinicals® is built with architecture to facilitate integration and enable modular system deployment. It includes a clinical data repository, clinical decision support/physician order entry, point-of-care documentation with bar-coded medication administration, enterprise laboratory, radiology, pharmacy, surgical management, an emergency department solution and an ambulatory EHR system. Horizon Clinicals® also includes solutions to facilitate physician access to patient information such as a Web-based physician portal and wireless devices that draw on information from the hospital's information systems. In addition, the Horizon Clinicals® suite includes a comprehensive solution for homecare, including telehealth and hospice.

Enterprise imaging: In addition to document imaging to facilitate maintenance and access to complete medical records, the segment provides a suite of enterprise medical imaging and information management systems, including a picture archiving communications system and a comprehensive cardiovascular information system. The segment's enterprise-wide approach to medical imaging enables organizations to take advantage of specialty-specific workstations while building an integrated image repository that manages all of the images and information captured throughout the care continuum.

Revenue cycle management: The segment's revenue cycle solutions are designed to reduce days in accounts receivable, prevent insurance claim denials, reduce costs and improve productivity. Examples of solutions include online patient billing, contract management, electronic claims processing and coding compliance checking. The segment's hospital information systems play a key role in managing the revenue cycle by automating the operation of individual departments and their respective functions within the inpatient environment.

Resource management: Resource management solutions consist of an integrated suite of applications that enhance an organization's ability to forecast and optimize enterprise-wide use of resources (labor, supplies, equipment and facilities) associated with the delivery of care. These solutions help automate and link resource requirements to care protocols designed to increase profitability, enhance decision-making and improve business processes.

Automation: Automation solutions include technologies that help hospitals to re-engineer and improve their medication use and supply management processes. Examples include centralized pharmacy automation for unit-dose medications, unit-based cabinet technologies for secure medication storage and rapid retrieval, point-of-use supply automation systems for inventory management and revenue capture, and an automated medication administration system for ensuring accuracy at the point of care. Based on a foundation of bar-code scanning technology, these integrated solutions are designed to reduce errors and bring new levels of safety to patients.

Physician practice solutions: The segment provides a complete solution for physician practices of all sizes that includes software, revenue cycle outsourcing and connectivity services. Software solutions include practice management and EHR software for physicians of every size, specialty or geographic location. The segment's physician practice offering also includes outsourced billing and collection services as well as services that connect physicians with their patients, hospitals, retail pharmacies and payors. Revenue cycle outsourcing enables physician

McKESSON CORPORATION

groups to avoid the infrastructure investment and administrative costs of their own in-house billing office. Services include clinical data collection, data input, medical coding, billing, contract management, cash collections, accounts receivable management and extensive reporting of metrics related to the physician practice.

Connectivity: Following the acquisition of Per-Se Technologies, Inc., in January 2007, we announced a vendor-neutral connectivity business known as RelayHealth®. The RelayHealth® “intelligent” network includes interactive connectivity solutions that streamline clinical, financial and administrative communication between patients, providers, payors, pharmacies and financial institutions. RelayHealth helps to accelerate the delivery of high-quality care and improve financial performance through solutions such as those for online consultation of physicians by patients, electronic prescribing by physicians, point-of-service resolution of pharmacy claims by payors, pre-visit financial clearance of patients by providers and post-visit settlement of provider bills by payors and patients.

In addition to the product offerings described above, the Provider Technologies segment offers a comprehensive range of services to help organizations derive greater value, enhance satisfaction and return on investment throughout the life of the solutions implemented. The range of services includes:

Technology Services: The segment has worked with numerous healthcare organizations to support the smooth operation of their information systems by providing the technical infrastructure designed to maximize application accessibility, availability, security and performance.

Professional Services: Professional services help customers achieve business results from their software or automation investment. The segment offers a wide array of quality service options, including consulting for business and/or clinical process improvement and re-design as well as implementation, project management, technical and education services relating to all products in the Provider Technologies segment.

Outsourcing Services: The segment helps organizations focus their resources on healthcare while the segment manages their information technology or revenue cycle operations through outsourcing. Outsourcing service options include managing hospital data processing operations, as well as strategic information systems planning and management, revenue cycle processes, payroll processing, business office administration and major system conversions.

Acquisitions, Investments and Discontinued Operations

We have undertaken strategic initiatives in recent years designed to further focus on our core healthcare businesses and enhance our competitive position. We expect to continue to undertake such strategic initiatives in the future. These initiatives are detailed in Financial Notes 2 and 3 to the consolidated financial statements, “Acquisitions and Investments” and “Discontinued Operations,” appearing in this Annual Report on Form 10-K.

Competition

In every area of healthcare distribution operations, our Pharmaceutical Solutions and Medical-Surgical Solutions segments face strong competition, both in price and service, from national, regional and local full-line, short-line and specialty wholesalers, service merchandisers, self-warehousing chains, manufacturers engaged in direct distribution and large payor organizations. In addition, these segments face competition from various other service providers and from pharmaceutical and other healthcare manufacturers (as well as other potential customers of the segments) which may from time to time decide to develop, for their own internal needs, supply management capabilities provided by the segments. Price, quality of service and, in some cases, convenience to the customer are generally the principal competitive elements in these segments.

Our Provider Technologies segment experiences substantial competition from many firms, including other computer services firms, consulting firms, shared service vendors, certain hospitals and hospital groups, hardware vendors and Internet-based companies with technology applicable to the healthcare industry. Competition varies in size from small to large companies, in geographical coverage, and in scope and breadth of products and services offered.

McKESSON CORPORATION

Intellectual Property

The principal trademarks and service marks of the Pharmaceutical Solutions and Medical-Surgical Solutions segments include: AccessHealth®, Acumax®, Ask-A-Nurse®, CareEnhance®, Closed Loop DistributionSM, Comets®, ConsumerScriptSM, CRMS®, .com Pharmacy Solutions®, Econolink®, Empowering Healthcare®, EnterpriseRxTM, Episode Profiler®, Expect More From MooreSM, FrontEdgeTM, Fulfill-RxTM, Health Mart®, High Performance PharmacySM, InterQual®, LoyaltyScriptSM, Max ImpactSM, McKesson®, McKesson Advantage®, McKesson Empowering Healthcare®, McKesson Max Rewards®, McKesson OneStop Generics®, McKesson Priority Express®, McKesson Supply ManagerSM, MediNetTM, Medi-Pak®, Mobile ManagerSM, Moore Medical®, MoorebrandSM, NOA®, Patterns ProfilerTM, Pharma360®, PharmacyRxTM, Pharmaserv®, PharmAssureSM, ProIntercept®, ProMed®, ProPBM®, RX PakSM, RX Savings Access®, ServiceFirst®, Staydry®, Sunmark®, Supply Management OnlineSM, TrialScript®, Valu-Rite®, XVIII B Medi Mart® and ZEE®.

The substantial majority of technical concepts and codes embodied in our Provider Technologies segment's computer programs and program documentation are principally protected as trade secrets. The principal trademarks and service marks for this segment are: Care Fully ConnectedTM, HealthQuest®, Paragon®, Pathways 2000®, TRENDSTAR®, Horizon Clinicals®, HorizonWP®, Series 2000TM, STAR 2000TM, PracticePoint®, ROBOT-Rx®, MedCarousel®, PACMEDTM, AcuDose-Rx®, CarePoint-RNTM, Connect-Rx®, Connect-RNTM, Horizon Admin-RxTM, Pak Plus-Rx®, SelfPace®, Fulfill-RxSM and SupplyScanTM, Per-Se Technologies® (and logo), Per-Se®, PerYourHealth.com®, ORSOS®, One-Call®, One-Staff®, ANSOS®, Premis®, DataStat®, MedisoftTM, ePremis®, Lytec®, E-ScriptTM, WebVisitTM, RelayHealth®, Practice Partner® and Physician Micro Systems®.

We also own other registered and unregistered trademarks and service marks and similar rights used by our business segments. All of the principal trademarks and service marks are registered in the United States, or registrations have been applied for with respect to such marks, in addition to certain other jurisdictions. The United States federal registrations of these trademarks have terms of ten or twenty years, depending on date of registration, and are subject to unlimited renewals. We believe we have taken all necessary steps to preserve the registration and duration of our trademarks and service marks, although no assurance can be given that we will be able to successfully enforce or protect our rights thereunder in the event that they are subject to third-party infringement claims. We do not consider any particular patent, license, franchise or concession to be material to our business. We also hold copyrights in, and patents related to, many of our products.

Other Information About the Business

Customers: In recent years, a significant portion of our revenue growth has been with a limited number of large customers. During 2007, sales to our largest customer, Caremark RX, Inc., and ten largest customers accounted for approximately 11% and 51% of our total consolidated revenues. At March 31, 2007, accounts receivable from Caremark RX, Inc. and our ten largest customers were approximately 12% and 48% of total accounts receivable. The majority of these revenues and accounts receivable are included in our Pharmaceutical Solutions segment.

Suppliers: We obtain pharmaceutical and other products from manufacturers, none of which accounted for more than approximately 10% of our purchases in 2007. The loss of a supplier could adversely affect our business if alternate sources of supply are unavailable. We believe that our relationships with our suppliers on the whole are good. The ten largest suppliers in 2007 accounted for approximately 55% of our purchases.

Over the past few years, our U.S. pharmaceutical distribution business has changed how it is compensated for the logistical, capital and administrative services that it provides to branded pharmaceutical manufacturers. Historically, a significant portion of compensation from the manufacturers was inflation-based. We purchased and held pharmaceutical inventory in anticipation of manufacturers increasing their prices. We benefited when the manufacturers increased their prices as we sold the inventory being held at the new higher prices. Commencing in 2003, branded pharmaceutical manufacturers implemented a number of changes such as restricting the volume of product available for purchase by pharmaceutical wholesalers. These changes limited our ability to purchase inventory in advance of price increases and led to volatility in our gross profit. In 2005, manufacturers also reduced the number and average magnitude of price increases.

By early 2006, we had revised most of our distribution arrangements with the manufacturers. Under these new arrangements, a significant portion of our compensation from the manufacturers is generated based on a percentage of purchases and, as a result, we are no longer as dependent upon pharmaceutical price increases. We continue to have certain distribution arrangements with manufacturers that include an inflation-based compensation component

McKESSON CORPORATION

while other arrangements remain structured under the historical inflation-based compensation model. For these manufacturers, a reduction in the frequency and magnitude of price increases as well as restrictions in the amount of inventory available to us could adversely impact our gross profit margin. In 2007, we benefited from certain branded manufacturers' price increases on selected drugs.

In addition, with the transition to these new arrangements, purchases from certain manufacturers are better aligned with customer demand and as a result, net financial inventory (inventory, net of accounts payable) decreased in 2006. This decrease had a positive impact on our cash flow from operations. These new arrangements also have somewhat diminished the seasonality of gross profit margin which has historically reflected the pattern of manufacturers' price increases.

Research and Development: Our research and development ("R&D") expenditures primarily consist of our investment in software development held for sale. We expended \$359 million, \$285 million and \$232 million for R&D activities in 2007, 2006 and 2005, and of these amounts, we capitalized 21%, 22% and 21%. R&D expenditures are primarily incurred by our Provider Technologies segment and Payor Group. Our Provider Technologies segment's product development efforts apply computer technology and installation methodologies to specific information processing needs of hospitals. We believe a substantial and sustained commitment to such expenditures is important to the long-term success of this business. Additional information regarding our R&D activities is included in Financial Note 1 to the consolidated financial statements, "Significant Accounting Policies," appearing in this Annual Report on Form 10-K.

Environmental Legislation: We sold our chemical distribution operations in 1987 and retained responsibility for certain environmental obligations. Agreements with the Environmental Protection Agency and certain states may require environmental assessments and cleanups at several closed sites. These matters are described further in Financial Note 17, "Other Commitments and Contingent Liabilities," appearing in this Annual Report on Form 10-K. Other than any expenditures that may be required in connection with those legal matters, we do not anticipate making substantial capital expenditures either for environmental issues, or to comply with environmental laws and regulations in the future. The amount of our capital expenditures for environmental compliance was not material in 2007 and is not expected to be material in the next year.

Employees: On March 31, 2007, we employed approximately 31,800 persons compared to 26,400 in 2006 and 25,200 in 2005.

Financial Information About Foreign and Domestic Operations: Information as to foreign and domestic operations is included in Financial Notes 1 and 21 to the consolidated financial statements, "Significant Accounting Policies" and "Segments of Business," appearing in this Annual Report on Form 10-K.

McKESSON CORPORATION

Item 1A. Risk Factors

Information regarding our risk factors is included in the Financial Review under the captions “Factors Affecting Forward-Looking Statements” and “Additional Factors That May Affect Future Results,” beginning on page 48 of this Annual Report on Form 10-K.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Because of the nature of our principal businesses, plant, warehousing, office and other facilities are operated in widely dispersed locations. The warehouses are typically owned or leased on a long-term basis. We consider our operating properties to be in satisfactory condition and adequate to meet our needs for the next several years without making capital expenditures materially higher than historical levels. Information as to material lease commitments is included in Financial Note 12 to the consolidated financial statements, “Lease Obligations,” appearing in this Annual Report on Form 10-K.

Item 3. Legal Proceedings

Certain legal proceedings in which we are involved are discussed in Financial Note 17 to our consolidated financial statements, “Other Commitments and Contingent Liabilities,” appearing in this Annual Report on Form 10-K.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the three months ended March 31, 2007.

McKESSON CORPORATION**Executive Officers of the Registrant**

The following table sets forth information regarding the executive officers of the Company, including their principal occupations during the past five years. The number of years of service with the Company includes service with predecessor companies.

There are no family relationships between any of the executive officers or directors of the Company. The executive officers are chosen annually to serve until the first meeting of the Board of Directors following the next annual meeting of stockholders and until their successors are elected and have qualified, or until death, resignation or removal, whichever is sooner.

<u>Name</u>	<u>Age</u>	<u>Position with Registrant and Business Experience</u>
John H. Hammergren	48	Chairman of the Board since July 31, 2002; President and Chief Executive Officer since April 1, 2001; Co-President and Co-Chief Executive Officer from July 1999 to April 1, 2001 and a director since July 1999. Service with the Company – 11 years.
Jeffrey C. Campbell.....	46	Executive Vice President and Chief Financial Officer since April 2004; Chief Financial Officer since December 2003; Senior Vice President since January 2004. Senior Vice President and Chief Financial Officer, AMR Corporation (2002-2003); Vice President Europe (2000-2002). Service with the Company – 3 years.
Paul C. Julian.....	51	Executive Vice President, Group President since April 2004; Senior Vice President since August 1999; President of the Supply Solutions Business since March 2000. Service with the Company – 11 years.
Paul E. Kirincic	56	Executive Vice President, Human Resources since April 2004; Senior Vice President, Human Resources since January 2001. Vice President, Human Resources, Consumer Health Sector, Warner Lambert (1998-2001). Service with the Company – 6 years.
Marc F. Owen.....	47	Executive Vice President, Corporate Strategy and Business Development since April 2004; Senior Vice President, Corporate Strategy and Business Development since October 2001; consultant to the Company April 2001-September 2001, when he joined the Company. Service with the Company – 6 years.
Pamela J. Pure	46	Executive Vice President, President, McKesson Provider Technologies since April 2004; McKesson Information Solutions, Chief Operating Officer (2002-2004), Group President (2001-2002). Chief Operating Officer, Channel Health (1999-2001). Service with the Company – 6 years.
Laureen E. Seeger.....	45	Executive Vice President, General Counsel and Secretary since March 2006; Vice President and General Counsel McKesson Provider Technologies (2000-2006). Service with the Company – 7 years.
Randall N. Spratt	55	Executive Vice President, Chief Information Officer since July 2005; Senior Vice President, Chief Process Officer, McKesson Provider Technologies (2003-2005); Senior Vice President, Imaging, Technology and Business Process Improvement (2001-2003); Senior Vice President, Technology and Standards, McKesson Information Solutions (2000-2001). Service with the Company – 11 years

McKESSON CORPORATION

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters, Issuer Purchases of Equity Securities and Stock Price Performance Graph

- (a) *Market Information:* The principal market on which the Company's common stock is traded is the New York Stock Exchange ("NYSE"). High and low prices for the common stock by quarter are included in Financial Note 22 to the consolidated financial statements, "Quarterly Financial Information (Unaudited)," appearing in this Annual Report on Form 10-K.
- (b) *Holders:* The number of record holders of the Company's common stock at March 31, 2007 was approximately 10,000.
- (c) *Dividends:* Dividend information is included in Financial Note 22 to the consolidated financial statements, "Quarterly Financial Information (Unaudited)," appearing in this Annual Report on Form 10-K.
- (d) *Share Repurchase Plans:* The following table provides information on the Company's share repurchases during the fourth quarter of 2007:

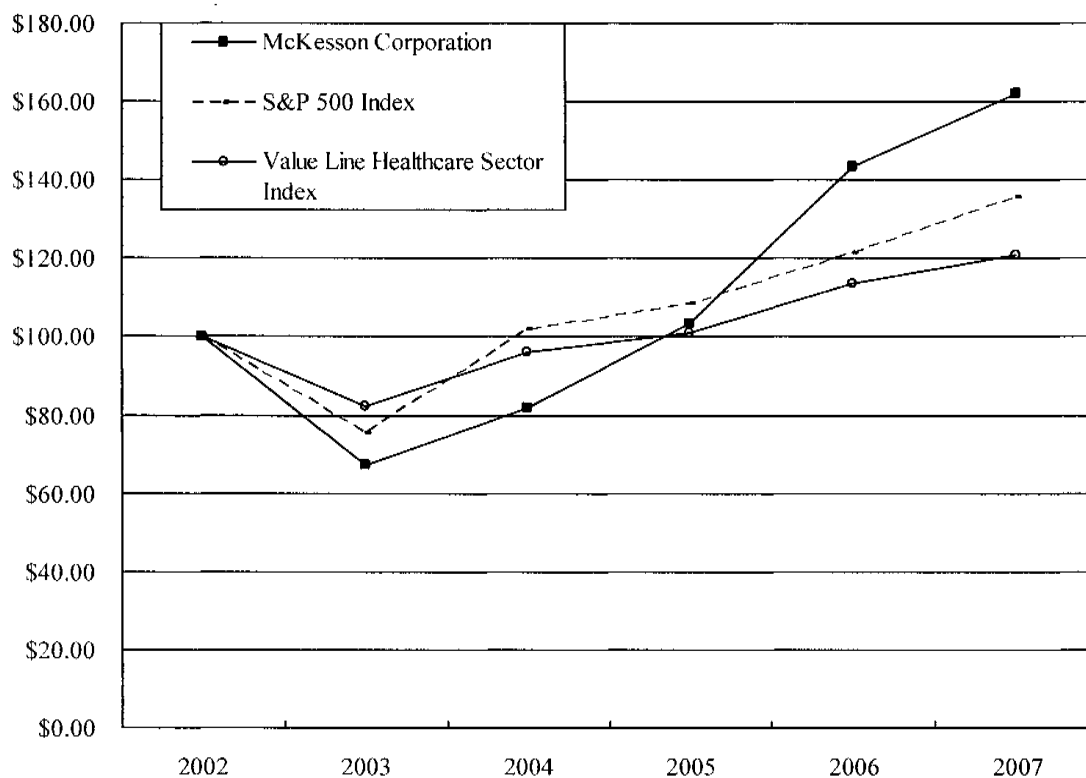
	Share Repurchases ⁽²⁾			
	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs ⁽¹⁾
<i>(In millions, except price per share)</i>				
January 1, 2007 – January 31, 2007	-	\$ -	-	\$ 247
February 1, 2007 – February 28, 2007	3	56.29	3	95
March 1, 2007 – March 31, 2007	2	55.70	2	-
Total	5	56.06	5	-

- (1) On July 26, 2006, the Company's Board of Directors (the "Board") approved a plan to repurchase up to a total of \$500 million of the Company's common stock. The Company completed this plan in the fourth quarter of 2007.
- (2) This table does not include shares tendered to satisfy the exercise price in connection with cashless exercises of employee stock options or shares tendered to satisfy tax withholding obligations in connection with employee equity awards.

On April 25, 2007, the Board approved an additional share repurchase plan of up to \$1.0 billion of the Company's common stock.

McKESSON CORPORATION

(c) *Stock Price Performance Graph:* The following graph compares the cumulative total stockholder return on the Company's common stock for the periods indicated with the Standard & Poor's 500 Index and the Value Line Health Care Sector Index (composed of 154 companies in the health care industry, including the Company).



	March 31,					
	2002	2003	2004	2005	2006	2007
McKesson Corporation	\$ 100.00	\$ 67.26	\$ 81.82	\$ 103.40	\$ 143.52	\$ 161.93
S&P 500 Index	\$ 100.00	\$ 75.24	\$ 101.66	\$ 108.47	\$ 121.19	\$ 135.53
Value Line HealthCare Sector Index	\$ 100.00	\$ 82.12	\$ 96.26	\$ 101.09	\$ 113.61	\$ 120.77

* Assumes \$100 invested in McKesson Common Stock and in each index on March 31, 2002 and that all dividends are reinvested.

Item 6. Selected Financial Data

Selected financial data is presented in the Five-Year Highlights section of this Annual Report on Form 10-K.

Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition

Management's discussion and analysis of the Company's results of operations and financial condition are presented in the Financial Review section of this Annual Report on Form 10-K.

McKESSON CORPORATION

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Information required by this item is included in the Financial Review section of this Annual Report on Form 10-K.

Item 8. Financial Statements and Supplementary Data

Financial Statements and Supplementary Data are included as separate sections of this Annual Report on Form 10-K. See Item 15.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our Chief Executive Officer and our Chief Financial Officer, with the participation of other members of the Company's management, have evaluated the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report, and have concluded that our disclosure controls and procedures are effective based on their evaluation of these controls and procedures as required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

Internal Control over Financial Reporting

Management's report on the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) in the Exchange Act), and the related report of our independent registered public accounting firm, are included on page 56 and page 57 of this Annual Report on Form 10-K, under the headings, "Management's Annual Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm," and are incorporated herein by reference.

Changes in Internal Controls

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information about our Directors is incorporated by reference from the discussion under Item 1 of our proxy statement for the 2007 Annual Meeting of Stockholders (the "Proxy Statement") under the heading "Election of Directors." Information about compliance with Section 16(a) of the Exchange Act is incorporated by reference from the discussion under the heading "10-K Section 16(a) Beneficial Ownership Compliance" in our Proxy Statement. Information about our Audit Committee, including the members of the committee, and our Audit Committee

McKESSON CORPORATION

financial expert is incorporated by reference from the discussion under the headings “Audit Committee Report” and “Audit Committee Financial Expert” in our Proxy Statement. The balance of the information required by this item is contained in the discussion entitled “Executive Officers of the Registrant” in Item 4 of Part I of this Annual Report on Form 10-K.

Pursuant to Section 303A.12 (a) of the NYSE Listed Company Manual, the Company’s Chief Executive Officer submitted a certification, dated August 21, 2006, stating that, as of such date, he was not aware of any violation by the Company of any NYSE corporate governance listing standards.

Information about the Code of Ethics governing our Chief Executive Officer, Chief Financial Officer, Controller and Financial Managers can be found on our Web site, www.mckesson.com, under the Governance tab. The Company’s Corporate Governance Guidelines and Charters for the Audit and Compensation Committees and the Committee on Directors and Corporate Governance can also be found on our Web site under the Governance tab.

Copies of these documents may be obtained from:

Corporate Secretary
McKesson Corporation
One Post Street, 33rd Floor
San Francisco, CA 94104
(800) 826-9360

The Company intends to disclose required information regarding any amendment to or waiver under the Code of Ethics referred to above by posting such information on our Web site within four business days after any such amendment or waiver.

Item 11. Executive Compensation

Information with respect to this item is incorporated by reference from the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information about security ownership of certain beneficial owners and management is incorporated by reference from the Proxy Statement.

McKESSON CORPORATION

The following table sets forth information as of March 31, 2007 with respect to the plans under which the Company's common stock is authorized for issuance:

<i>Plan Category</i> <i>(In millions, except per share amounts)</i>	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders ⁽¹⁾	18.9	\$ 52.73	8.8 ⁽²⁾
Equity compensation plans not approved by security holders ^{(3),(4)}	14.4	34.55	0.3

(1) Includes the 1973 Stock Purchase Plan and the 2000 Employee Stock Purchase Plan ("ESPP"). Also includes options outstanding under the 1994 Stock Option and Restricted Stock Plan, which expired October 2004, the 2005 Stock Plan, and the 1997 Non-Employee Directors' Equity Compensation and Deferral Plan, which was replaced by the 2005 Stock Plan, following its approval by the stockholders on July 27, 2005.

(2) Includes 1,424,882 shares which remained available for purchase under the ESPP at March 31, 2007.

(3) Includes the 1999 Executive Stock Purchase Plan and a small assumed sharesave scheme (similar to the ESPP) in the United Kingdom. Also includes options that remain outstanding under the terminated broad-based 1999 Stock Option and Restricted Stock Plan, the 1998 Canadian Stock Incentive Plan, and two stock option plans, all of which were replaced by the 2005 Stock Plan following its approval by the stockholders on July 27, 2005.

(4) As a result of acquisitions, the Company currently has 8 assumed option plans under which options are exercisable for 2,358,337 shares of Company common stock. No further awards will be made under any of the assumed plans and information regarding the assumed options is not included in the table above.

The following are descriptions of equity plans that have been approved by the Company's stockholders. The plans are administered by the Compensation Committee of the Board of Directors, except for the portion of the 2005 Stock Plan related to Non-Employee Directors which is administered by the Committee on Directors and Corporate Governance.

2005 Stock Plan (the "2005 Stock Plan"): The 2005 Stock Plan was adopted by the Board of Directors on May 25, 2005 and approved by the Company's stockholders on July 27, 2005. The 2005 Stock Plan provides for the grant of up to 13 million shares, in the form of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance shares and other share-based awards. For any one share of common stock issued in connection with a stock-settled stock appreciation right, restricted stock award, restricted stock unit award, performance share or other share-based award, two shares shall be deducted from the shares available for future grants. Shares of common stock not issued or delivered as a result of the net exercise of a stock appreciation right or option, shares used to pay the withholding taxes related to a stock award, or shares repurchased on the open market with proceeds from the exercise of options shall not be returned to the reserve of shares available for issuance under the 2005 Stock Plan.

Options are granted at not less than fair market value and have a term of seven years. Options generally become exercisable in four equal annual installments beginning one year after the grant date, or after four years from the date of grant. The award or vesting of restricted stock, restricted stock units ("RSUs") or performance based RSUs may be conditioned upon the attainment of one or more performance objectives. Vesting of such awards is generally a three year cliff.

Non-employee directors receive an annual grant of up to 5,000 RSUs, currently set at 2,500 RSUs, which vest immediately, however payment of any shares is delayed until the director is no longer performing services for the Company. The 2005 Stock Plan replaced the 1997 Non-Employee Directors Equity Compensation and Deferral Plan.

1973 Stock Purchase Plan (the "SPP"): The SPP was adopted by the stockholders of the Company's predecessor in 1973. The Company's stockholders approved an additional 2.5 million shares to be issued under the SPP in 1999, which remain available for issuance. Rights to purchase shares are granted under the SPP to key employees of the Company as determined by the Compensation Committee of the Board. The purchase price, to be paid in cash or using promissory notes of the Company's common stock, subject to rights granted under the SPP, is the fair market value of such stock on the date the right is exercised.

McKESSON CORPORATION

2000 Employee Stock Purchase Plan (the "ESPP"): The ESPP is intended to qualify as an "employee stock purchase plan" within the meaning of Section 423 of the Internal Revenue Code. In March 2002, the Board amended the ESPP to allow for participation in the plan by employees of certain of the Company's international and other subsidiaries. As to those employees, the ESPP does not so qualify. Currently, 11 million shares have been authorized for issuance under the ESPP.

The ESPP is implemented through a continuous series of three-month purchase periods ("Purchase Periods") during which contributions can be made toward the purchase of common stock under the plan.

Each eligible employee may elect to authorize regular payroll deductions during the next succeeding Purchase Period, the amount of which may not exceed 15% of a participant's compensation. At the end of each Purchase Period, the funds withheld by each participant will be used to purchase shares of the Company's common stock. The purchase price of each share of the Company's common stock is based on 85% of the fair market value of each share on the last day of the applicable Purchase Period. In general, the maximum number of shares of common stock that may be purchased by a participant for each calendar year is determined by dividing \$25,000 by the fair market value of one share of common stock on the offering date.

The following are descriptions of equity plans that have not been submitted for approval by the Company's stockholders:

On July 27, 2005, the Company's stockholders approved the 2005 Stock Plan which had the effect of terminating the 1999 Stock Option and Restricted Stock Plan, the 1998 Canadian Stock Incentive Plan, the Stock Option Plans adopted in January 1999 and August 1999, which plans had not been submitted for approval by the Company's stockholders, and the 1997 Non-Employee Directors' Equity Compensation and Deferral Plan, which had previously been approved by the Company's stockholders. Prior grants under these plans include stock options, restricted stock and RSUs. Stock options under the terminated plans generally have a ten-year life and vest over four years. Restricted stock contains certain restrictions on transferability and may not be transferred until such restrictions lapse. Each of these plans has outstanding equity grants, which are subject to the terms and conditions of their respective plans, but no new grants will be made under these terminated plans.

1999 Executive Stock Purchase Plan (the "1999 SPP"): The 1999 SPP was adopted by the Board of Directors in February 1999. The 1999 SPP provided for the grant of rights to purchase a maximum of 0.7 million shares of common stock subject to the NYSE limits. No further grants will be made from the 1999 SPP. Rights to purchase shares were granted under the 1999 SPP to eligible employees of the Company. The purchase price, to be paid in cash or using promissory notes, for the Company's common stock subject to rights granted under the 1999 SPP was equal to the fair market value of the Company's common stock on the date the right was exercised (which was the closing price of the Company's common stock on the NYSE). Purchases were evidenced by written stock purchase agreements which provide for the payment of the purchase price by (i) payment in cash, or (ii) a promissory note payable on a repayment schedule determined by the Compensation Committee of the Board, or (iii) a combination of (i) and (ii).

HBOC 1994 UK Sharesave Scheme (the "1994 Scheme"): In connection with the acquisition by the Company of HBO & Company ("HBOC"), we assumed the HBOC 1994 Scheme, which is similar to the ESPP, under which approximately 0.2 million shares remain available for issuance. Employees and previous directors of HBOC and its subsidiaries, who are residents of the United Kingdom, are eligible to receive options under the 1994 Scheme. The exercise price of the stock covered by each option shall not be less than 85% of the fair market value of the Company's common stock on the date the option is granted. Participants under the 1994 Scheme pay for options through monthly contributions, subject to minimum and maximum monthly limits. We no longer offer any new options under the 1994 Scheme.

Item 13. Certain Relationships and Related Transactions and Director Independence

Information with respect to certain transactions with management is incorporated by reference from the Proxy Statement under the heading "Certain Relationships and Related Transactions." Additional information regarding related party transactions is included in the Financial Review section of this Annual Report on Form 10-K and Financial Note 20, "Related Party Balances and Transactions," to the consolidated financial statements.

McKESSON CORPORATION

Item 14. Principal Accounting Fees and Services

Information regarding principal accounting fees and services is set forth under the heading “Ratification of Appointment of Deloitte & Touche LLP as the Company’s Independent Registered Public Accounting Firm for 2008” in our Proxy Statement and all such information is incorporated herein by reference.

McKESSON CORPORATION

PART IV

Item 15. Exhibits and Financial Statement Schedule*(a) Financial Statements, Financial Statement Schedule and Exhibits*

	<u>Page</u>
Consolidated Financial Statements and Report of Independent Registered Public Accounting Firm. See "Index to Consolidated Financial Information"	25
Supplementary Consolidated Financial Statement Schedule— Valuation and Qualifying Accounts	21
Financial statements and schedules not included have been omitted because of the absence of conditions under which they are required or because the required information, where material, is shown in the financial statements, financial notes or supplementary financial information.	
Exhibits submitted with this Annual Report on Form 10-K as filed with the SEC and those incorporated by reference to other filings are listed on the Exhibit Index.....	22

McKESSON CORPORATION

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

McKESSON CORPORATION

Dated: May 9, 2007

/s/ Jeffrey C. Campbell
Jeffrey C. Campbell
 Executive Vice President and Chief Financial Officer

On behalf of the Registrant and pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the date indicated:

*

John H. Hammergren
 Chairman, President and Chief Executive Officer
 (Principal Executive Officer)

*

Marie L. Knowles, Director

*

Jeffrey C. Campbell
 Executive Vice President and Chief Financial Officer
 (Principal Financial Officer)

*

David M. Lawrence M.D., Director

*

Nigel A. Rees
 Vice President and Controller
 (Principal Accounting Officer)

*

Robert W. Matschullat, Director

*

Wayne A. Budd, Director

*

James V. Napier, Director

*

Alton F. Irby III, Director

*

Jane E. Shaw, Director

*

M. Christine Jacobs, Director

/s/ Laureen E. Seeger
Laureen E. Seeger
 *Attorney-in-Fact

Dated: May 9, 2007

McKESSON CORPORATION

SCHEDULE II

SUPPLEMENTARY CONSOLIDATED FINANCIAL STATEMENT SCHEDULE
VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended March 31, 2007, 2006 and 2005

(In millions)

Description	Balance at Beginning of Year	Additions		Deductions From Allowance Accounts ⁽¹⁾	Balance at End of Year ⁽²⁾
		Charged to Costs and Expenses	Charged to Other Accounts ⁽⁵⁾		
Year Ended March 31, 2007					
Allowances for doubtful accounts	\$ 124	\$ 24	\$ 15	\$ (24)	\$ 139
Other allowances	7	4	-	-	11
	<u>\$ 131</u>	<u>\$ 28</u>	<u>\$ 15</u>	<u>\$ (24)</u>	<u>\$ 150 ⁽⁴⁾</u>
Year Ended March 31, 2006					
Allowances for doubtful accounts	\$ 113	\$ 26	\$ 23	\$ (38) ⁽³⁾	\$ 124
Other allowances	3	3	1	-	7
	<u>\$ 116</u>	<u>\$ 29</u>	<u>\$ 24</u>	<u>\$ (38)</u>	<u>\$ 131</u>
Year Ended March 31, 2005					
Allowances for doubtful accounts	\$ 133	\$ 16	\$ 9	\$ (45)	\$ 113
Other allowances	4	-	-	(1)	3
	<u>\$ 137</u>	<u>\$ 16</u>	<u>\$ 9</u>	<u>\$ (46)</u>	<u>\$ 116</u>

	2007	2006	2005
(1) Deductions:			
Written off	\$ 24	\$ 23	\$ 46
Credited to other accounts	-	15 ⁽³⁾	-
Total	<u>\$ 24</u>	<u>\$ 38</u>	<u>\$ 46</u>
(2) Amounts shown as deductions from receivables.	<u>\$ 150</u>	<u>\$ 131</u>	<u>\$ 116</u>

(3) Includes a \$15 million recovery of a previously reserved doubtful account.

(4) Includes a \$10 million allowance for non-current receivables.

(5) Primarily represents additions relating to acquisitions.

McKESSON CORPORATION

EXHIBIT INDEX

Exhibits identified in parentheses below are on file with the Commission and are incorporated by reference as exhibits hereto.

<u>Exhibit Number</u>	<u>Description</u>
3.1	Certificate of Amendment of Restated Certificate of Incorporation of the Company as filed with the Delaware Secretary of State on August 1, 2002 (Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, File No. 1-13252).
3.2	Restated Certificate of Incorporation of the Company as filed with the Delaware Secretary of State on November 9, 2001 (Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, File No. 1-13252).
3.3	Amended and Restated By-Laws of the Company, dated as of January 4, 2007 (Exhibit 3.1 to the Company's Current Report on Form 8-K, Date of Report, January 4, 2007, File No. 1-13252).
4.3	Indenture, dated as of March 11, 1997, between the Company, as Issuer, and The First National Bank of Chicago, as Trustee (Exhibit 4.4 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1997, File No. 1-13252).
4.4	Amended and Restated Declaration of Trust of McKesson Financing Trust, dated as of February 20, 1997, among the Company, The First National Bank of Chicago, as Institutional Trustee, First Chicago, Inc., as Delaware Trustee, and the Regular Trustees (Exhibit 4.2 to Amendment No. 1 to the Company's Registration Statement on Form S-3, Registration No. 333-26443, filed on June 18, 1997).
4.5	Indenture, dated as of January 29, 2002, between the Company, as Issuer, and the Bank of New York, as Trustee (Exhibit 4.6 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2002, File No. 1-13252).
4.6	Indenture, dated as of March 5, 2007, by and between McKesson Corporation, as Issuer, and The Bank of New York Trust Company, N.A., as Trustee (Exhibit 4.1 to the Company's Current Report on Form 8-K, Date of Report, February 28, 2007, File No. 1-13252).
10.1	Letter Agreement, dated January 11, 2005, and Annex A (Stipulation and Agreement of Settlement between Lead Plaintiff and Defendants McKesson HBOC, Inc. and HBO & Company) thereto in connection with the consolidated securities class action (Exhibit 99.1 to the Company's Current Report on Form 8-K, Date of Report, January 18, 2005, File No. 1-13252).
10.2*	McKesson Corporation 1999 Stock Option and Restricted Stock Plan, as amended through March 31, 2004 (Exhibit 10.2 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2003, File No. 1-13252).
10.3*	Statement of Terms and Conditions Applicable to certain Stock Options granted on August 16, 1999 (Exhibit 10.38 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2000, File No. 1-13252).
10.4*	McKesson Corporation 1997 Non-Employee Directors' Equity Compensation and Deferral Plan, as amended through January 29, 2003 (Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2004, File No. 1-13252).
10.5*	McKesson Corporation Supplemental PSIP, as amended and restated as of January 29, 2003 (Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2003, File No. 1-13252).
10.6*	McKesson Corporation Deferred Compensation Administration Plan, amended and restated effective October 28, 2004 (Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-13252).
10.7*	McKesson Corporation Deferred Compensation Administration Plan II, as amended and restated effective October 28, 2004 (Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-13252).
10.8*	McKesson Corporation 1994 Option Gain Deferral Plan, as amended and restated effective October 28, 2004 (Exhibit 10.8 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-13252).
10.9*	McKesson Corporation Management Deferred Compensation Plan, amended and restated as of October 28, 2004 (Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-13252).
10.10*	McKesson Corporation Executive Benefit Retirement Plan, as amended and restated as of October 27, 2006 (Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, File No. 1-13252).

McKESSON CORPORATION

Exhibit Number	Description
10.11*	McKesson Corporation Executive Survivor Benefits Plan, as amended and restated as of October 28, 2004 (Exhibit 10.11 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-13252).
10.12*	McKesson Corporation Executive Medical Plan, as amended and restated effective January 1, 2004 (Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-13252).
10.13*	McKesson Corporation Severance Policy for Executive Employees, as amended and restated January 1, 2005 (Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, File No. 1-13252).
10.14*	McKesson Corporation 2005 Management Incentive Plan, as amended and restated effective as of October 27, 2006 (Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, File No. 1-13252).
10.15*	McKesson Corporation Long-Term Incentive Plan, as amended and restated as of January 1, 2005 (Exhibit 10.15 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, File No. 1-13252).
10.16*	McKesson Corporation Stock Purchase Plan, as amended through July 31, 2002 (Exhibit 10.19 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2003, File No. 1-13252).
10.17*	McKesson Corporation 1999 Executive Stock Purchase Plan (Exhibit 99.1 to the Company's Registration Statement on Form S-8, Registration No. 333-71917 filed on February 5, 1999).
10.18*	Statement of Terms and Conditions Applicable to Certain Stock Options Granted on January 27, 1999 (Exhibit 10.28 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1999, File No. 1-13252).
10.19*	Form of Restricted Stock Unit Agreement under the 2005 Stock Plan (Exhibit 10.19 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2006, File No. 1-13252).
10.20*	Form of Stock Option Grant Notice under the 2005 Stock Plan (Exhibit 10.20 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2006, File No. 1-13252).
10.21*	McKesson Corporation 2005 Stock Plan, as amended and restated as of May 25, 2005 (Exhibit 10.21 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, File No. 1-13252).
10.22*	Statement of Terms and Conditions Applicable to Restricted Stock Units Granted to Outside Directors Pursuant to the 2005 Stock Plan, effective July 27, 2005 (Exhibit 10.3 to the Company's Current Report on Form 8-K, Date of Report, July 27, 2005, File No. 1-13252).
10.23*	Statement of Terms and Conditions Applicable to Options, Restricted Stock, Restricted Stock Units and Performance Shares Granted to Employees Pursuant to the 2005 Stock Plan, effective April 25, 2006 (Exhibit 10.23 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2006, File No. 1-13252).
10.24	Deed of Settlement and Amendment in Relation to Human Resources and Payroll Services Contract, dated as of June 22, 2005, between the Secretary of State for Health for the United Kingdom and McKesson Information Solutions UK Limited (Confidential treatment has been granted for certain portions of this exhibit and such confidential portions have been filed with the Commission) (Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2005, File No. 1-13252).
10.25	Amended and Restated Receivables Purchase Agreement, dated as of June 11, 2004, among the Company, as servicer, CGSF Funding Corporation, as seller, the several conduit purchasers from time to time party to the Agreement, the several committed purchasers from time to time party to the Agreement, the several managing agents from time to time party to the Agreement, and Bank One, N.A. (Main Office Chicago), as collateral agent. (Exhibit 10.20 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2005, File No. 1-13252).
10.26	Credit Agreement, dated as of September 24, 2004, among McKesson Corporation, McKesson Canada Corporation, Bank of America, N.A., as Administrative Agent, Bank of America, N.A. acting through its Canada branch, as Canadian Administrative Agent with respect to the Canadian Loans and the Bankers' Acceptance Facility, Wachovia Bank, National Association, as L/C Issuer, and each lender from time to time party thereto (Exhibit 99.1 to the Company's Current Report on Form 8-K, Date of Report, September 24, 2004, File No. 1-13252).
10.27	Purchase Agreement, dated as of December 31, 2002, between McKesson Capital Corp. and General Electric Capital Corporation (Exhibit 10.41 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2003, File No. 1-13252).

McKESSON CORPORATION

Exhibit Number	Description
10.28	Services Agreement, dated as of December 31, 2002, between McKesson Capital Corp. and General Electric Capital Corporation (Exhibit 10.42 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2003, File No. 1-13252).
10.29	Interim Credit Agreement, dated as of January 26, 2007, among McKesson Corporation, Bank of America N.A., as Administrative Agent, Wachovia Bank, National Association, as Syndication Agent, the other Lenders party thereto, and Banc of America Securities LLC and Wachovia Capital Markets, LLC, as Joint Lead Arrangers and Joint Book Managers (Exhibit 10.1 to the Company's Current Report on Form 8-K, Date of Report, January 26, 2007, File No. 1-13252).
10.30*	Employment Agreement, dated as of November 1, 2006, by and between the Company and its Chairman, President and Chief Executive Officer (Exhibit 10.30 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, File No. 1-13252).
10.31*	Employment Agreement, dated as of November 1, 2006, by and between the Company and its Executive Vice President and President, Provider Technologies (Exhibit 10.31 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2006, File No. 1-13252).
10.32*	Employment Agreement, dated as of November 1, 2006, by and between the Company and its Executive Vice President and Group President (Exhibit 10.32 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2006, File No. 1-13252).
10.33*	McKesson Corporation Change in Control Policy for Selected Executive Employees, effective as of November 1, 2006 (Exhibit 10.33 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, File No. 1-13252).
10.34*	McKesson Corporation Deferred Compensation Administration Plan ("DCAP III"), effective as of January 1, 2005 (Exhibit 10.34 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, File No. 1-13252).
10.35*	Statement of Terms and Conditions Applicable to Officers Pursuant to the 2005 Stock Plan (Exhibit 10.1 to the Company's Current Report on Form 8-K, Date of Report, May 23, 2006, File No. 1-13252).
10.36*	Statement of Terms and Conditions Applicable to the Chief Executive Officer Pursuant to the 2005 Stock Plan (Exhibit 10.2 to the Company's Current Report on Form 8-K, Date of Report, May 23, 2006, File No. 1-13252).
12	Calculation of Ratio of Earnings to Fixed Charges
21	List of Subsidiaries of the Registrant
23	Consent of Independent Registered Public Accounting Firm, Deloitte & Touche LLP
24	Power of Attorney
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Management contract or compensation plan or arrangement in which directors and/or executive officers are eligible to participate.

Registrant agrees to furnish to the Commission upon request a copy of each instrument defining the rights of security holders with respect to issues of long-term debt of the Registrant, the authorized principal amount of which does not exceed 10% of the total assets of the Registrant.

McKESSON CORPORATION

INDEX TO CONSOLIDATED FINANCIAL INFORMATION

	<u>Page</u>
Five-Year Highlights	26
Financial Review	27
Management's Annual Report on Internal Control Over Financial Reporting	56
Report of Independent Registered Public Accounting Firm	57
Consolidated Financial Statements:	
Consolidated Statements of Operations for the years ended March 31, 2007, 2006 and 2005	58
Consolidated Balance Sheets as of March 31, 2007 and 2006	59
Consolidated Statements of Stockholders' Equity for the years ended March 31, 2007, 2006 and 2005	60
Consolidated Statements of Cash Flows for the years ended March 31, 2007, 2006 and 2005	61
Financial Notes	62

McKESSON CORPORATION

FIVE-YEAR HIGHLIGHTS

	As of and for the Years Ended March 31,				
<i>(In millions, except per share amounts and ratios)</i>	2007	2006	2005	2004	2003
Operating Results					
Revenues	\$ 92,977	\$ 86,983	\$ 79,096	\$ 67,993	\$ 55,710
Percent change	6.9%	10.0%	16.3%	22.0%	14.8%
Gross profit	4,332	3,777	3,342	3,107	2,954
Income (loss) from continuing operations before income taxes	1,297	1,171	(266)	869	812
Income (loss) after income taxes					
Continuing operations	968	745	(173)	621	538
Discontinued operations	(55)	6	16	26	17
Net income (loss)	913	751	(157)	647	555
Financial Position					
Working capital	2,730	3,527	3,658	3,706	3,394
Days sales outstanding for: ⁽¹⁾					
Customer receivables	21	22	23	25	26
Inventories	32	29	34	36	39
Drafts and accounts payable	43	41	40	40	42
Total assets	23,943	20,961	18,775	16,240	14,361
Total debt, including capital lease obligations	1,958	991	1,211	1,485	1,507
Stockholders' equity	6,273	5,907	5,275	5,165	4,525
Property acquisitions	126	166	135	110	113
Acquisitions of businesses, net	1,938	589	76	49	386
Common Share Information					
Common shares outstanding at year-end	295	304	299	290	291
Shares on which earnings (loss) per common share were based					
Diluted	305	316	294	299	299
Basic	298	306	294	290	289
Diluted earnings (loss) per common share ⁽²⁾					
Continuing operations	3.17	2.36	(0.59)	2.10	1.82
Discontinued operations	(0.18)	0.02	0.06	0.09	0.06
Total	2.99	2.38	(0.53)	2.19	1.88
Cash dividends declared	72	74	71	70	70
Cash dividends declared per common share	0.24	0.24	0.24	0.24	0.24
Book value per common share ⁽³⁾	21.26	19.43	17.64	17.81	15.55
Market value per common share - year end	58.54	52.13	37.75	30.09	24.93
Supplemental Data					
Capital employed ⁽⁴⁾	8,231	6,898	6,486	6,650	6,032
Debt to capital ratio ⁽⁵⁾	23.8%	14.4%	18.7%	22.3%	25.0%
Net debt to net capital employed ⁽⁶⁾	0.1%	(24.1)%	(12.6)%	13.1%	17.9%
Average stockholders' equity ⁽⁷⁾	6,022	5,736	5,264	4,835	4,216
Return on stockholders' equity ⁽⁸⁾	15.2%	13.1%	(3.0)%	13.4%	13.2%

Footnotes to Five-Year Highlights:

- (1) Based on year-end balances and sales or cost of sales for the last 90 days of the year. Days sales outstanding for customer receivables are adjusted to include accounts receivable sold.
- (2) Certain computations may reflect rounding adjustments.
- (3) Represents stockholders' equity divided by year-end common shares outstanding.
- (4) Consists of total debt and stockholders' equity.
- (5) Ratio is computed as total debt divided by capital employed.
- (6) Ratio is computed as total debt, net of cash and cash equivalents ("net debt"), divided by net debt and stockholders' equity ("net capital employed").
- (7) Represents a five-quarter average of stockholders' equity.
- (8) Ratio is computed as net income (loss), divided by a five-quarter average of stockholders' equity.

McKESSON CORPORATION

FINANCIAL REVIEW

Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition

GENERAL

Management's discussion and analysis of results of operations and financial condition, referred to as the Financial Review, is intended to assist the reader in the understanding and assessment of significant changes and trends related to the results of operations and financial position of the Company together with its subsidiaries. This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying financial notes. The Company's fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references in this document to a particular year shall mean the Company's fiscal year.

We conduct our business through three operating segments: Pharmaceutical Solutions, Medical-Surgical Solutions and Provider Technologies. See Financial Note 1 to the accompanying consolidated financial statements, "Significant Accounting Policies," for a description of these segments.

RESULTS OF OPERATIONS

Overview:

(In millions, except per share data)	Years Ended March 31,		
	2007	2006	2005
Revenues	\$ 92,977	\$ 86,983	\$ 79,096
Securities Litigation credit (charge), net	6	(45)	(1,200)
Income (Loss) from Continuing Operations Before			
Income Taxes	1,297	1,171	(266)
Discontinued Operations, net	(55)	6	16
Net Income (Loss)	913	751	(157)
Diluted Earnings (Loss) Per Share	\$ 2.99	\$ 2.38	\$ (0.53)

Revenues increased 7% to \$93.0 billion and 10% to \$87.0 billion in 2007 and 2006. The increase in revenues primarily reflects growth in our Pharmaceutical Solutions segment, which accounted for over 95% of our consolidated revenues. Increases in revenue for this segment were primarily due to market growth rates and due to our acquisition of D&K Healthcare Resources, Inc. ("D&K") during the second quarter of 2006.

Gross profit increased 15% to \$4.3 billion and 13% to \$3.8 billion in 2007 and 2006. As a percentage of revenues, gross profit increased 32 basis points ("bp") to 4.66% in 2007 and 11 bp to 4.34% in 2006. Our 2007, 2006 and 2005 gross profit includes the receipt of \$10 million, \$95 million and \$41 million of cash proceeds representing our share of settlements of antitrust class action lawsuits. Excluding these settlements, gross profit margin increased by 42 bp and 6 bp in 2007 and 2006. The increase in our 2007 gross profit margin primarily reflects improvement in margins in our U.S. pharmaceutical distribution business.

Operating expenses were \$3.1 billion, \$2.7 billion and \$3.6 billion in 2007, 2006 and 2005. Operating expenses for 2007, 2006 and 2005 includes a pre-tax credit of \$6 million and pre-tax charges of \$45 million and \$1.2 billion for our Securities Litigation. Excluding the Securities Litigation charges or credit, operating expenses increased 18% in 2007 and 11% in 2006 primarily reflecting additional operating expenses incurred to support our sales growth and higher compensation expenses including expenses associated with our implementation of Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-based Compensation". SFAS No. 123(R) was implemented on April 1, 2006 and requires us to expense all share-based compensation. Operating expenses were also impacted by our business acquisitions, including our acquisition of D&K.

Other income, net in 2007 approximated that of 2006. Other income, net increased 104% to \$139 million in 2006 primarily reflecting increases in our interest income due to our favorable cash balances.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Interest expense increased 5% to \$99 million in 2007 and decreased 20% to \$94 million in 2006. Interest expense increased in 2007 primarily reflecting the issuance of \$1.0 billion of debt as part of our \$1.8 billion acquisition of Per-Se Technologies, Inc. ("Per-Se"). Interest expense decreased in 2006 primarily reflecting the repayment of \$250 million of term debt in the fourth quarter of 2005.

Income (loss) from continuing operations before income taxes was \$1,297 million, \$1,171 million and (\$266) million in 2007, 2006 and 2005, reflecting the above noted factors.

Our reported income tax rates were 25.4%, 36.4% and 35.0% in 2007, 2006 and 2005. Fluctuations in our reported income tax rates are primarily due to changes in income within states and foreign countries that have lower tax rates. Additionally, in 2007, we recorded an \$83 million credit to our income tax provision relating to the reversal of income tax reserves for our Securities Litigation. The tax reserves were initially established in 2005 for future resolution of uncertain tax matters related to our Securities Litigation, which were favorably resolved in 2007.

Results from discontinued operations include an after-tax loss of \$55 million and after tax gains of \$6 million and \$16 million, or (\$0.18), \$0.02 and \$0.06 per diluted share in 2007, 2006 and 2005. During the second quarter of 2007, we sold our Medical-Surgical Solutions segment's Acute Care business for net cash proceeds of \$160 million. Financial results for this business for 2007 reflect an after-tax loss of \$66 million, which includes a \$79 million non-tax deductible write-off of goodwill. Financial results for the Acute Care business have been reclassified as a discontinued operation for all periods presented.

Net income (loss) was \$913 million, \$751 million and (\$157) million in 2007, 2006 and 2005 and diluted earnings (loss) per share was \$2.99, \$2.38 and (\$0.53). Excluding the Securities Litigation charges or credit, net income would have been \$826 million, \$781 million and \$653 million in 2007, 2006 and 2005 and diluted earnings per share would have been \$2.71, \$2.48 and \$2.19.

Revenues:

(In millions)	Years Ended March 31,		
	2007	2006	2005
Pharmaceutical Solutions			
U.S. Healthcare direct distribution & services	\$ 54,461	\$ 52,032	\$ 46,958
U.S. Healthcare sales to customers' warehouses	27,555	25,462	23,755
Subtotal	82,016	77,494	70,713
Canada distribution & services	6,692	5,910	5,211
Total Pharmaceutical Solutions	88,708	83,404	75,924
Medical-Surgical Solutions	2,364	2,037	1,870
Provider Technologies			
Services	1,365	1,069	936
Software and software systems	374	322	246
Hardware	166	151	120
Total Provider Technologies	1,905	1,542	1,302
Total Revenues	\$ 92,977	\$ 86,983	\$ 79,096

Revenues increased 7% to \$93.0 billion in 2007 and 10% to \$87.0 billion in 2006. The growth in revenues was primarily driven by our Pharmaceutical Solutions segment, which accounted for over 95% of revenues.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

The customer mix of our U.S. pharmaceutical distribution revenues was as follows:

	2007	2006	2005
Direct Sales			
Independents	13%	12%	12%
Retail Chains	23	22	20
Institutions	29	32	34
Subtotal	65	66	66
Sales to customers' warehouses	35	34	34
Total	100%	100%	100%

U.S. Healthcare pharmaceutical direct distribution and service revenues increased in 2007 primarily reflecting market growth rates, partially offset by the loss of a large customer. Revenues for 2007 were also impacted by our acquisition of D&K during the second quarter of 2006 and by expanded agreements with customers. Revenues for this segment increased in 2006 primarily due to our acquisition of D&K and growth among existing customers which includes market growth rates. Market growth rates reflect growing drug utilization and price increases, which are offset in part by the increased use of lower priced generics.

U.S. Healthcare sales to customers' warehouses increased over the last two years primarily as a result of new and expanded agreements with customers. Partially offsetting these increases was a decrease in volume from a large customer commencing in 2006. Sales to customers' warehouses represent large volume sales of pharmaceuticals primarily to a limited number of large self-warehousing customers whereby we order bulk product from the manufacturer, receive and process the product through our central distribution facility and subsequently deliver the bulk product (generally in the same form as received from the manufacturer) directly to our customers' warehouses. These sales provide a benefit to our customers in that they can use one source for both their direct store-to-store business and their warehouse business. We have significantly lower gross profit margin on these sales as we pass much of the efficiency of this low cost-to-serve model onto the customer. These sales do, however, contribute to our gross profit dollars.

Canadian pharmaceutical distribution revenues increased over the last two years primarily reflecting market growth rates and favorable exchange rates. Canadian revenues benefited from a 5%, 7% and 7% foreign currency impact in 2007, 2006 and 2005.

Medical-Surgical Solutions segment distribution revenues increased in 2007 primarily reflecting stronger than average market growth rates and due to the acquisition of Sterling Medical Services LLC ("Sterling") during the first quarter of 2007. Sterling is based in Moorestown, New Jersey, and is a national provider and distributor of disposable medical supplies, health management services and quality management programs to the home care market. This segment's revenues also increased in 2006 primarily due to market growth rates.

Provider Technologies revenues increased over the last two years primarily reflecting greater domestic implementations of clinical, imaging, revenue cycle and resource management software solutions. In 2007, revenues for this segment also benefited from increased software solution implementations, and to a lesser extent, due to our acquisition of Per-Se during the fourth quarter of 2007.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Gross Profit:

<i>(Dollars in millions)</i>	Years Ended March 31,		
	2007	2006	2005
Gross Profit			
Pharmaceutical Solutions	\$ 2,757	\$ 2,485	\$ 2,188
Medical-Surgical Solutions	676	572	546
Provider Technologies	899	720	608
Total	\$ 4,332	\$ 3,777	\$ 3,342
Gross Profit Margin			
Pharmaceutical Solutions	3.11%	2.98%	2.88%
Medical-Surgical Solutions	28.60	28.08	29.20
Provider Technologies	47.19	46.69	46.70
Total	4.66	4.34	4.23

Gross profit increased 15% to \$4.3 billion in 2007 and 13% to \$3.8 billion in 2006. As a percentage of revenues, gross profit increased 32 bp in 2007 and 11 bp in 2006. All three of our operating segments contributed to the increase in our gross profit dollars and gross profit margin in 2007. Increases in our gross profit dollars in 2006 were primarily due to our Pharmaceutical Solutions segment and to a lesser extent, due to our Provider Technologies segment. Gross profit margins increased in 2006 primarily due to an increase in our Pharmaceutical Solutions segment's gross profit margin.

Our Pharmaceutical Solutions segment's gross profit margin improved over the past two years. This segment's gross profit margin was impacted by a number of changes, including:

- higher buy side margins. Our buy side margins reflect changes in our distribution arrangements with U.S. pharmaceutical manufacturers ("manufacturers"):

Over the past few years, our U.S. pharmaceutical distribution business has changed how it is compensated for the logistical, capital and administrative services that it provides to branded pharmaceutical manufacturers. Historically, a significant portion of compensation from the manufacturers was inflation-based. We purchased and held pharmaceutical inventory in anticipation of manufacturers increasing their prices. We benefited when the manufacturers increased their prices as we sold the inventory being held at the new higher prices. Commencing in 2003, branded pharmaceutical manufacturers implemented a number of changes such as restricting the volume of product available for purchase by pharmaceutical wholesalers. These changes limited our ability to purchase inventory in advance of price increases and led to volatility in our gross profit. In 2005, manufacturers also reduced the number and average magnitude of price increases.

By early 2006, we had revised most of our distribution arrangements with the manufacturers. Under these new arrangements, a significant portion of our compensation from the manufacturers is generated based on a percentage of purchases and, as a result, we are no longer as dependent upon pharmaceutical price increases. We continue to have certain distribution arrangements with manufacturers that include an inflation-based compensation component while other arrangements remain structured under the historical inflation-based compensation model. For these manufacturers, a reduction in the frequency and magnitude of price increases as well as restrictions in the amount of inventory available to us could adversely impact our gross profit margin. In 2007, we benefited from certain branded manufacturers' price increases on selected drugs.

In addition, with the transition to these new arrangements, purchases from certain manufacturers are better aligned with customer demand and as a result, net financial inventory (inventory, net of accounts payable) decreased in 2006. This decrease had a positive impact on our cash flow from operations. These new arrangements also have somewhat diminished the seasonality of gross profit margin which has historically reflected the pattern of manufacturers' price increases.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

- the benefit of increased sales of generic drugs with higher margins,
- antitrust settlements of \$10 million in 2007 compared with \$95 million in 2006 and \$41 million in 2005, representing our share of cash proceeds from settlements of various antitrust class action lawsuits,
- last-in, first-out (“LIFO”) inventory credits of \$64 million in 2007 compared with \$32 million in 2006 and \$59 million in 2005. LIFO credits reflect a number of generic product launches partially offset by a higher level of branded pharmaceutical price increases.

Our Pharmaceutical Solutions segment uses the LIFO method of accounting for the majority of its inventories, which results in cost of sales that more closely reflects replacement cost than do other accounting methods, thereby mitigating the effects of inflation and deflation on operating profit. The practice in the Pharmaceutical Solutions’ distribution businesses is to pass onto customers published price changes from suppliers. Manufacturers generally provide us with price protection, which limits price-related inventory losses. Price declines on many generic pharmaceutical products in this segment over the last few years have moderated the effects of inflation in other product categories, which resulted in minimal overall price changes in those years.

- in 2007, a decrease in gross profit margin associated with a greater proportion of revenues within the segment attributed to sales to customers’ warehouses, which have lower gross profit margins relative to other revenues within the segment. In 2006, gross profit margin was positively impacted by a smaller proportion of segment revenues attributed to sales to customers’ warehouses,
- in 2007, a \$15 million charge pertaining to the write-down of certain abandoned assets within our retail automation group. During the first quarter of 2007, we contributed \$36 million in cash and \$45 million in net assets primarily from our Automated Prescription Systems business to Parata Systems, LLC (“Parata”), in exchange for a significant minority interest in Parata. Parata is a manufacturer of pharmacy robotic equipment. In connection with the investment, we abandoned certain assets which resulted in a \$15 million charge to cost of sales and we incurred \$6 million of other expenses related to the transaction which were recorded within operating expenses. We did not recognize any additional gains or losses as a result of this transaction as we believe the fair value of our investment in Parata, as determined by a third-party valuation, approximates the carrying value of consideration contributed to Parata. Our investment in Parata is accounted for under the equity method of accounting within our Pharmaceutical Solutions segment, and
- in 2006, the benefit of higher supplier cash discounts from a change in customer mix and higher sales volume.

In addition, gross profit margin for our U.S. pharmaceutical distribution business benefited from a relatively stable sell side margin over the last two years.

Medical-Surgical Solutions segment’s gross profit margin increased in 2007 primarily reflecting favorable product mix and buy and sell side margins. This segment’s gross profit margin decreased in 2006 primarily reflecting pressure on our buy and sell margins. Provider Technologies segment’s gross profit margin increased in 2007 primarily due to a change in product mix. This segment’s gross profit margin in 2006 approximated that of 2005.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Operating Expenses:

<i>(Dollars in millions)</i>	Years Ended March 31,		
	2007	2006	2005
Operating Expenses			
Pharmaceutical Solutions	\$ 1,434	\$ 1,311	\$ 1,141
Medical-Surgical Solutions	597	492	469
Provider Technologies	749	590	514
Corporate	294	213	234
Subtotal	3,074	2,606	2,358
Securities Litigation charge (credit), net	(6)	45	1,200
Total	\$ 3,068	\$ 2,651	\$ 3,558
Operating Expenses as a Percentage of Revenues			
Pharmaceutical Solutions	1.62%	1.57%	1.50%
Medical-Surgical Solutions	25.25	24.15	25.08
Provider Technologies	39.32	38.26	39.48
Total	3.30	3.05	4.50

Operating expenses increased 16% to \$3.1 billion in 2007 and decreased 25% to \$2.7 billion in 2006. Operating expenses for 2007, 2006 and 2005 include a pre-tax credit of \$6 million and pre-tax charges of \$45 million and \$1.2 billion for our Securities Litigation. Excluding the impact of our Securities Litigation, operating expenses increased 18% and 11% in 2007 and 2006. Operating expenses as a percentage of revenues increased 25 bp to 3.30% in 2007 and decreased 145 bp to 3.05% in 2006 (or 31 bp and 2 bp in 2007 and 2006, excluding the impact of our Securities Litigation). Excluding the Securities Litigation charges and credit, increases in operating expenses in 2007 compared with 2006 were primarily due to additional costs to support our sales volume growth, our business acquisitions, employee compensation costs including the requirement to expense all share-based compensation, and research and development expenditures. Increases in operating expenses for 2006 compared with 2005, excluding the Securities Litigation charges, were primarily due to additional expenses incurred to support our sales volume growth, including distribution expenses and higher foreign currency exchange rates for our Canadian operations and increased research and development expenditures. Operating expenses in 2006 were also impacted by our acquisition of D&K.

Operating expenses included the following significant items:

2007

- \$60 million of share-based compensation expense, or \$44 million more than the previous year. On April 1, 2006, we adopted SFAS No. 123(R), which requires the recognition of expense resulting from transactions in which we acquire goods and services by issuing our shares, share options or other equity instruments. The incremental compensation expense was recorded as follows: \$12 million, \$3 million and \$16 million in our Pharmaceutical Solutions, Medical-Surgical Solutions and Provider Technologies segments, and \$13 million in Corporate expenses,
- \$15 million of restructuring expenses primarily for severance to realign certain of our businesses and other functions. These restructuring charges were incurred as follows: \$5 million for our Pharmaceutical Solutions segment and \$10 million for our Provider Technologies segment, and
- an \$11 million credit to our Pharmaceutical Solution's operating expenses due to a favorable adjustment to a legal reserve.

2006

- a \$45 million net charge for our Securities Litigation and a decrease in legal expenses associated with the litigation which were both recorded in Corporate expenses, and
- a \$15 million credit to our Pharmaceutical Solutions' bad debt expense due to a recovery of a previously reserved customer account.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

2005

- a \$1.2 billion charge for our Securities Litigation and an increase in legal expenses associated with the litigation which were both recorded in Corporate expenses, and
- approximately \$12 million of settlement charges pertaining to a non-qualified pension plan, which were primarily included in Corporate expenses. In 2005, we made several lump sum cash payments totaling approximately \$42 million from an unfunded U.S. pension plan. In accordance with accounting standards, additional charges for settlements associated with lump sum payments of pension obligations were expensed in the period in which the payments were made.

Other Income, net:

(In millions)	Years Ended March 31,		
	2007	2006	2005
By Segment			
Pharmaceutical Solutions	\$ 38	\$ 37	\$ 24
Medical-Surgical Solutions	2	3	4
Provider Technologies	9	13	13
Corporate	83	86	27
Total	\$ 132	\$ 139	\$ 68

Other income, net decreased in 2007 and increased in 2006 primarily reflecting changes in our interest income associated with the Company's cash balances and, to a lesser extent for 2006, due to an increase in our equity in earnings of Nadro, S.A. de C.V. ("Nadro"). Interest income, which is primarily recorded in Corporate expenses, was \$103 million, \$105 million and \$41 million in 2007, 2006 and 2005.

Segment Operating Profit and Corporate Expenses:

(Dollars in millions)	Years Ended March 31,		
	2007	2006	2005
Segment Operating Profit			
Pharmaceutical Solutions	\$ 1,361	\$ 1,211	\$ 1,071
Medical-Surgical Solutions	81	83	81
Provider Technologies	159	143	107
Subtotal	1,601	1,437	1,259
Corporate Expenses, net	(211)	(127)	(207)
Securities Litigation credit (charge), net	6	(45)	(1,200)
Interest Expense	(99)	(94)	(118)
Income (Loss) from Continuing Operations Before Income Taxes	\$ 1,297	\$ 1,171	\$ (266)
Segment Operating Profit Margin			
Pharmaceutical Solutions	1.53%	1.45%	1.41%
Medical-Surgical Solutions	3.43	4.07	4.33
Provider Technologies	8.35	9.27	8.22

Segment operating profit includes gross margin, net of operating expenses, and other income for our three business segments. In addition to the significant items previously discussed, operating profit increased in 2007 and 2006 primarily reflecting revenue growth and an increase in gross profit margin in our Pharmaceutical Solutions segment and for 2006, improved operating profit in our Provider Technologies segment.

Operating profit as a percentage of revenues increased in 2007 and 2006 in our Pharmaceutical Solutions segment primarily reflecting an increase in gross profit margins, offset in part by an increase in operating expenses as a percentage of revenues. Operating expenses increased in both dollars and as a percentage of revenues primarily due to additional costs incurred to support our revenue growth, additional compensation expense and for 2006, the addition of D&K's operating and integration expenses. In 2007, operating profit for this segment also benefited from an \$11 million credit to operating expense due to an adjustment to a legal reserve and in 2006, the segment

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

benefited from a \$15 million credit to bad debt expense due to a recovery on a previously reserved customer account. Operating profit in 2006 also benefited from an increase in equity earnings from our investment in Nadro.

Medical-Surgical Solutions segment's operating profit as a percentage of revenues declined in 2007 primarily reflecting an increase in operating expenses as a percentage of revenues, partially offset by a small improvement in the segment's gross profit margin. The segment's operating profit as a percentage of revenues also declined in 2006 primarily reflecting lower gross profit margin, partially offset by a decrease in operating expenses as a percentage of revenues. Over the past two years, operating expenses as a percentage of revenue have been impacted by a higher amount of operating costs associated with a greater proportion of costs incurred to serve the segment's alternate site customers, which have a higher cost-to-serve ratio than the segment's other customers. Additionally, operating expenses in 2007 include increases in compensation expense and in 2007 and 2006, an increase in bad debt expense. Operating expenses in 2006 also benefited from a receipt of a vendor credit and a decrease in legal expenses.

Provider Technologies segment's operating profit as a percentage of revenues decreased in 2007 primarily reflecting an increase in operating expenses as a percentage of revenues, partially offset by an increase in gross profit margin. Operating expenses increased in both dollars and as a percentage of revenues in 2007 primarily reflecting additional compensation expense and restructuring charges incurred to reallocate product development and marketing resources and to realign one of the segment's international businesses. This segment's operating profit as a percentage of revenues increased in 2006 primarily reflecting favorable operating expenses as a percentage of revenues. In addition to the factors previously noted, operating expense dollars for this segment increased over the past two years reflecting investments in research and development activities and sales functions to support the segment's revenue growth and business acquisitions. Additionally, operating expenses in 2006 benefited from a reduction in bad debt expense.

This segment is in the process of completing the business integration plans for its acquisition of Per-Se. In accordance with accounting standards, certain costs that will be incurred to integrate acquired businesses will be treated as part of the cost of the acquisition whereas other related costs will be expensed.

Corporate expenses, net of other income, increased in 2007 primarily reflecting additional costs incurred to support various initiatives and revenue growth, an increase in compensation expense and a decrease in interest income. Legal costs associated with our Securities Litigation declined in 2007; however, other legal costs offset this benefit. Corporate expenses, net of other income, decreased in 2006 primarily reflecting an increase in interest income, a decrease in legal costs associated with our Securities Litigation and a decrease in pension settlement charges. These favorable variances were partially offset by additional costs incurred to support various initiatives and revenue growth. Legal costs associated with our Securities Litigation were \$19 million, \$27 million and \$43 million in 2007, 2006 and 2005.

Securities Litigation Charges, Net: As discussed in Financial Note 17, "Other Commitments and Contingent Liabilities," to the accompanying consolidated financial statements, in the third quarter of 2005, we announced that we had reached an agreement to settle the action captioned *In re McKesson HBOC, Inc. Securities Litigation* (No. C-99-20743-RMW) (the "Consolidated Action"). In general, we agreed to pay the settlement class a total of \$960 million in cash. During the third quarter of 2005, we recorded a \$1,200 million pre-tax (\$810 million after-tax) charge with respect to the Company's Securities Litigation. The charge consisted of \$960 million for the Consolidated Action and \$240 million for other Securities Litigation proceedings.

During 2006, we settled many of the other Securities Litigation proceedings and paid \$243 million pursuant to those settlements. Based on the payments made in the Consolidated Action and the other Securities Litigation proceedings, settlements reached in certain of the other Securities Litigation proceedings and our assessment of the remaining cases, the estimated reserves were increased by \$52 million and \$1 million in pre-tax charges during the first and third quarters of 2006 and decreased by an \$8 million pre-tax credit during the fourth quarter of 2006, for a total net pre-tax charge of \$45 million for 2006. On February 24, 2006, the Court gave final approval to the settlement of the Consolidated Action and as a result, we paid approximately \$960 million into an escrow account established by the lead plaintiff in connection with the settlement.

During 2007, the Securities Litigation accrual decreased \$31 million primarily reflecting a net pre-tax credit of \$6 million representing a settlement and a reassessment of another case in the second quarter of 2007, and \$25 million of cash payments made in connection with these settlements. Based on the payments made in the

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Consolidated Action and payments made to settle other previously reported Securities Litigation proceedings, and based on our assessment of the remaining cases, the estimated Securities Litigation accruals as of March 31, 2007 and 2006 were \$983 million and \$1,014 million. We believe this accrual is adequate to address our remaining potential exposure with respect to all of the Securities Litigation matters. However, in view of the number and uncertainties of the timing and outcome of this type of litigation, and the substantial amounts involved, it is possible that the ultimate costs of these matters could impact our earnings, either negatively or positively, in the quarter of their resolution. We do not believe that the resolution of these matters will have a material adverse effect on our results of operations, liquidity or financial position taken as a whole.

Interest Expense: Interest expense increased in 2007 compared to 2006 primarily due to \$1.0 billion of additional financing required to fund our acquisition of Per-Se. Refer to our discussion under the caption "Credit Resources" within this Financial Review for additional information regarding our financing for the Per-Se acquisition. Interest expense decreased in 2006 compared to 2005 primarily reflecting the repayment of \$250 million of term debt during the fourth quarter of 2005.

Income Taxes: Our reported tax rates were 25.4%, 36.4% and 35.0% in 2007, 2006 and 2005. In addition to the items noted below, fluctuations in our reported tax rate are primarily due to changes within state and foreign tax rates resulting from our business mix, including varying proportions of income attributable to foreign countries that have lower income tax rates.

Securities Litigation - As discussed in Financial Note 15, "Income Taxes," we recorded an income tax benefit of \$390 million relating to the Securities Litigation in the third quarter of 2005. We believed the pending settlement of the Consolidated Action and the ultimate resolution of the lawsuits brought independently by other shareholders would be tax deductible. However, the tax attributes of the litigation were complex and the Company expected challenges from the taxing authorities, and accordingly such deductions could not be finalized until the lawsuits were concluded and the tax authorities reviewed the deductions. As of March 31, 2005, we provided tax reserves for future resolution of these uncertain tax matters.

In the second quarter of 2007, we recorded a credit to income tax expense of \$83 million which primarily pertains to our receipt of a private letter ruling from the U.S. Internal Revenue Service holding that our payment of approximately \$960 million to settle our Securities Litigation Consolidated Action is fully tax-deductible. As discussed in the preceding paragraph, we previously established tax reserves to reflect the lack of certainty regarding the tax deductibility of settlement amounts paid in the Consolidated Action and related litigation.

Other Income Tax Adjustments - In 2007, we recorded \$24 million in income tax benefits arising primarily from settlements and adjustments with various taxing authorities and research and development investment tax credits generated by our Canadian operations.

In 2006, we recorded a \$14 million income tax expense which primarily relates to a basis adjustment in an investment and adjustments with various taxing authorities.

In 2005, we recorded a \$10 million income tax benefit arising primarily from settlements and adjustments with various taxing authorities and a \$3 million income tax benefit primarily due to a reduction of a valuation allowance related to state income tax net operating loss carryforwards. We believe that the income tax benefit from a portion of these state net operating loss carryforwards will now be realized.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Discontinued Operations:

Results from discontinued operations were as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2007	2006	2005
Income (loss) from discontinued operations			
Acute Care	\$ (9)	\$ (13)	\$ 21
BioServices	-	2	5
Other	-	-	-
Income taxes	4	4	(10)
Total	<u>\$ (5)</u>	<u>\$ (7)</u>	<u>\$ 16</u>
Gain (loss) on sales of discontinued operations			
Acute Care	\$ (49)	\$ -	\$ -
BioServices	-	22	-
Other	10	-	-
Income taxes	(11)	(9)	-
Total	<u>\$ (50)</u>	<u>\$ 13</u>	<u>\$ -</u>
Discontinued operations, net of taxes			
Acute Care	\$ (66)	\$ (8)	\$ 13
BioServices	-	14	3
Other	11	-	-
Total	<u>\$ (55)</u>	<u>\$ 6</u>	<u>\$ 16</u>

In the second quarter of 2007, we sold our Medical-Surgical Solutions segment's Acute Care supply business to Owens & Minor, Inc. ("OMI") for net cash proceeds of approximately \$160 million. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the financial results of this business are classified as a discontinued operation for all periods presented in the accompanying consolidated financial statements. Revenues associated with the Acute Care business prior to its disposition were \$1,062 million and \$1,025 million for 2006 and 2005 and \$597 million for the first half of 2007.

Financial results for 2007 for this discontinued operation include an after-tax loss of \$66 million, which primarily consists of an after-tax loss of \$61 million for the business' disposition and \$5 million of after-tax losses associated with operations, other asset impairment charges and employee severance costs. The after-tax loss of \$61 million for the business' disposition includes a \$79 million non-tax deductible write-off of goodwill, as further described below.

In connection with the divestiture of our Acute Care business, we allocated a portion of our Medical-Surgical Solutions segment's goodwill to the Acute Care business as required by SFAS No. 142, "Goodwill and Other Intangible Assets." The allocation was based on the relative fair values of the Acute Care business and the continuing businesses that are being retained by the Company. The fair value of the Acute Care business was determined based on the net cash proceeds resulting from the divestiture and the fair value of the continuing businesses was determined by a third-party valuation. As a result, we allocated \$79 million of the segment's goodwill to the Acute Care business.

Additionally, as part of the divestiture, we entered into a transition services agreement ("TSA") with OMI under which we provided certain services to the Acute Care business during a transition period of approximately six months. Financial results from the TSA, as well as employee severance charges over the transition period, were recorded as part of discontinued operations. The continuing cash flows generated from the TSA were not material to our consolidated financial statements and the TSA was completed as of March 31, 2007.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

In 2005, our Acute Care business entered into an agreement with a third party vendor to sell the vendor's proprietary software and services. The terms of the contract required us to prepay certain royalties. During the third quarter of 2006, we ended marketing and sale of the software under the contract. As a result of this decision, we recorded a \$15 million pre-tax charge in the third quarter of 2006 to write-off the remaining balance of the prepaid royalties.

In the second quarter of 2007, we also sold a wholly-owned subsidiary, Pharmaceutical Buyers Inc., for net cash proceeds of \$10 million. The divestiture resulted in an after-tax gain of \$5 million resulting from the tax basis of the subsidiary exceeding its carrying value. The gain on disposition was also recorded in the second quarter of 2007. Financial results for this business, which were previously included in our Pharmaceutical Solutions segment, were not material to our consolidated financial statements.

The results for discontinued operations for 2007 also include an after-tax gain of \$6 million associated with the collection of a note receivable from a business sold in 2003 and the sale of a small business.

In the second quarter of 2006, we sold our wholly-owned subsidiary, McKesson BioServices Corporation (BioServices"), for net cash proceeds of \$63 million. The divestiture resulted in an after-tax gain of \$13 million. Financial results for this business, which were previously included in our Pharmaceutical Solutions segment, were not material to our consolidated financial statements.

In accordance with SFAS No. 144, financial results for these businesses are classified as discontinued operations for all periods presented.

Net Income: Net income (loss) was \$913 million, \$751 million and (\$157) million in 2007, 2006 and 2005 and diluted earnings (loss) per share was \$2.99, \$2.38 and (\$0.53). Excluding the Securities Litigation charges, 2007 net income and net income per diluted share would have been \$826 million and \$2.71, for 2006, \$781 million and \$2.48, and for 2005, \$653 million and \$2.19.

A reconciliation between our net income (loss) per share reported under accounting standards generally accepted ("GAAP") in the United States and our earnings per diluted share, excluding charges for the Securities Litigation is as follows:

<i>(In millions except per share amounts)</i>	Years Ended March 31,		
	2007	2006	2005
Net income (loss), as reported	\$ 913	\$ 751	\$ (157)
Exclude:			
Securities Litigation charge (credit), net	(6)	45	1,200
Estimated income tax expense (benefit)	2	(15)	(390)
Income tax reserve reversal	(83)	-	-
Securities Litigation charge, net of tax	(87)	30	810
Net income, excluding Securities Litigation charge	\$ 826	\$ 781	\$ 653
Diluted earnings per common share, excluding Securities Litigation charge ⁽¹⁾	\$ 2.71	\$ 2.48	\$ 2.19
Shares on which diluted earnings per common share, excluding the Securities Litigation charge, were based	305	316	301

(1) For 2006 and 2005, interest expense, net of related income taxes, of \$1 million and \$6 million, has been added to net income, excluding the Securities Litigation charges, for purpose of calculating diluted earnings per share. This calculation also includes the impact of dilutive securities (stock options, convertible junior subordinated debentures and restricted stock).

These pro forma amounts are non-GAAP financial measures. We use these measures internally and consider these results to be useful to investors as they provide relevant benchmarks of core operating performance.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Weighted Average Diluted Shares Outstanding: Diluted earnings (loss) per share was calculated based on a weighted average number of shares outstanding of 305 million, 316 million and 294 million for 2007, 2006 and 2005. Weighted average shares outstanding for 2007 decreased from 2006 primarily reflecting common stock repurchased during the year, net of stock option exercises. Weighted average diluted shares outstanding for 2006 primarily reflect an increase in the number of common shares outstanding as a result of exercised stock options, net of common stock repurchased, as well as an increase in the common stock equivalents from stock options due to the increase in the Company's common stock price. For 2005, potentially dilutive securities were excluded from the per share computations due to their antidilutive effect.

International Operations

International operations accounted for 7.5%, 7.0% and 6.8% of 2007, 2006 and 2005 consolidated revenues. International operations are subject to certain risks, including currency fluctuations. We monitor our operations and adopt strategies responsive to changes in the economic and political environment in each of the countries in which we operate. Additional information regarding our international operations is also included in Financial Note 21, "Segments of Business" to the accompanying consolidated financial statements.

Acquisitions and Investments

In 2007, we made the following acquisitions and investment:

- On January 26, 2007, we acquired all of the outstanding shares of Per-Se of Alpharetta, Georgia for \$28.00 per share in cash plus the assumption of Per-Se's debt, or approximately \$1.8 billion in aggregate, including cash acquired of \$76 million. Per-Se is a leading provider of financial and administrative healthcare solutions for hospitals, physicians and retail pharmacies. The acquisition was initially funded with cash on hand and through the use of an interim credit facility. In March 2007, we issued \$1 billion of long-term debt, with such net proceeds after offering expenses from the issuance, together with cash on hand, being used to fully repay borrowings outstanding under the interim credit facility (refer to Financial Note 10, "Long-Term Debt and Other Financing").

Approximately \$1,228 million of the preliminary purchase price allocation has been assigned to goodwill. Included in the purchase price allocation are acquired identifiable intangibles of \$408 million representing customer relationships with a weighted-average life of 10 years, developed technology of \$56 million with a weighted-average life of 5 years, and trademark and tradenames of \$13 million with a weighted-average life of 5 years.

In accordance with accounting standards, certain costs that will be incurred to integrate acquired businesses will be treated as part of the cost of the acquisition whereas other related costs will be expensed. Financial results for Per-Se are primarily included within our Provider Technologies segment since the date of acquisition.

- Our Provider Technologies segment acquired RelayHealth Corporation ("RelayHealth") based in Emeryville, California. RelayHealth is a provider of secure online healthcare communication services linking patients, healthcare professionals, payors and pharmacies. This segment also acquired two other entities, one specializing in patient billing solutions designed to simplify and enhance healthcare providers' financial interactions with their patients, and the other a provider of integrated software for electronic health records, medical billing and appointment scheduling for independent physician practices. The total cost of these three entities was \$90 million, which was paid in cash. Goodwill recognized in these transactions amounted to \$63 million.
- Our Medical-Surgical Solutions segment acquired Sterling based in Moorestown, New Jersey. Sterling is a national provider and distributor of disposable medical supplies, health management services and quality management programs to the home care market. This segment also acquired a leading medical supply sourcing agent. The total cost of these two entities was \$95 million, which was paid in cash. Goodwill recognized in these transactions amounted to \$47 million.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

- We invested \$36 million in cash and \$45 million in net assets primarily from our Automated Prescription Systems business in Parata, in exchange for a significant minority interest in Parata. Parata is a manufacturer of pharmacy robotic equipment. In connection with the investment, we abandoned certain assets which resulted in a \$15 million charge to cost of sales and we incurred \$6 million of other expenses related to the transaction which were recorded within operating expenses. We did not recognize any additional gains or losses as a result of this transaction as we believe the fair value of our investment in Parata, as determined by a third-party valuation, approximates the carrying value of consideration contributed to Parata. Our investment in Parata is accounted for under the equity method of accounting within our Pharmaceutical Solutions segment.

In 2006, we made the following acquisitions:

- We acquired substantially all of the issued and outstanding stock of D&K of St. Louis, Missouri for an aggregate cash purchase price of \$479 million, including the assumption of D&K's debt. D&K is primarily a wholesale distributor of branded and generic pharmaceuticals and over-the-counter health and beauty products to independent and regional pharmacies, primarily in the Midwest. Approximately \$158 million of the purchase price was assigned to goodwill. Included in the purchase price were acquired identifiable intangibles of \$43 million primarily representing customer lists and not-to-compete covenants which have an estimated weighted-average useful life of nine years. Results of D&K's operations are included in our Pharmaceutical Solutions segment.
- We acquired all of the issued and outstanding shares of Medcon Ltd., ("Medcon"), an Israeli company, for an aggregate purchase price of \$82 million. Medcon provides web-based cardiac image and information management services to healthcare providers. Approximately \$60 million of the purchase price was assigned to goodwill and \$20 million was assigned to intangibles which represent technology assets and customer lists which have an estimated weighted-average useful life of four years. The results of Medcon's operations are included in our Provider Technologies segment.

In 2005, we made the following acquisition and investment:

- We invested \$33 million to increase our ownership percentage in Nadro to approximately 48%. Prior to the additional investment, the Company owned approximately 22% of the outstanding common shares of Nadro. Our investment in Nadro is accounted for under the equity method of accounting within our Pharmaceutical Solutions segment.
- We acquired all of the issued and outstanding shares of Moore Medical Corp. ("MMC"), of New Britain, Connecticut, for an aggregate cash purchase price of \$37 million. MMC is an Internet-enabled, multi-channel marketer and distributor of medical-surgical and pharmaceutical products to non-hospital provider settings. Approximately \$19 million of the purchase price was assigned to goodwill. The results of MMC's operations have been included in the consolidated financial statements within our Medical-Surgical Solutions segment since the acquisition date.

During the last three years we also completed a number of other smaller acquisitions and investments within all three of our operating segments. Financial results for our business acquisitions have been included in our consolidated financial statements since their respective acquisition dates. Purchase prices for our business acquisitions have been allocated based on estimated fair values at the date of acquisition and, for certain recent acquisitions, may be subject to change. Goodwill recognized for our business acquisitions is not expected to be deductible for tax purposes. Pro forma results of operations for our business acquisitions have not been presented because the effects were not material to the consolidated financial statements on either an individual or an aggregate basis. Refer to Financial Note 2, "Acquisitions and Investments," to the accompanying consolidated financial statements for further discussions regarding our acquisitions and investing activities.

2008 Outlook

Information regarding the Company's 2008 outlook is contained in our Form 8-K dated May 7, 2007. This Form 8-K should be read in conjunction with the sections "Factors Affecting Forward-looking Statements" and "Additional Factors That May Affect Future Results" included in this Financial Review.

McKESON CORPORATION

FINANCIAL REVIEW (Continued)

2008 Operating Segments

Beginning with the first quarter of 2008, we will report our operations in two segments: McKesson Distribution Solutions and McKesson Technology Solutions. This change resulted from a realignment of our businesses to better correlate our operations with the needs of our customers. The factors for determining the reportable segments included the manner in which management evaluated the performance of the Company combined with the nature of the individual business activities. In accordance with SFAS 131, "Disclosures about Segments of an Enterprise and Related Information", all prior period segment information will be reclassified to conform to this new financial reporting presentation commencing in 2008. Additional information regarding our new segments is as follows:

We have combined our Pharmaceutical Solutions and Medical-Surgical Solutions segments into a new segment, McKesson Distribution Solutions. This segment distributes ethical and proprietary drugs, medical-surgical supplies and equipment, and health and beauty care products throughout North America. This segment also provides specialty pharmaceutical solutions for biotech and pharmaceutical manufacturers, software, consulting, outsourcing and other services and, through its investment in Parata, sells automated pharmaceutical dispensing systems for retail pharmacies.

The McKesson Technology Solutions segment (currently known as our Provider Technologies segment) delivers enterprise-wide patient care, clinical, financial, supply chain, and strategic management software solutions, pharmacy automation for hospitals, as well as connectivity, outsourcing and other services, to healthcare organizations throughout North America, the United Kingdom and other European countries. The segment also provides disease management programs to payors primarily in the United States. The segment's customers include hospitals, physicians, homecare providers, retail pharmacies and payors. We have added our Payor group of businesses, which includes our clinical auditing and compliance, disease management, medical management and InterQual businesses, to this segment. The Payor group was previously included in our Pharmaceutical Solutions segment.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We consider an accounting estimate to be critical if the estimate requires us to make assumptions about matters that were uncertain at the time the accounting estimate was made and if different estimates that we reasonably could have used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on our financial condition or results from operations. Below are the estimates that we believe are critical to the understanding of our operating results and financial condition. Other accounting policies are described in Financial Note 1, "Significant Accounting Policies," to the accompanying consolidated financial statements. Because of the uncertainty inherent in such estimates, actual results may differ from these estimates.

Receivables: We provide short-term credit and other customer financing arrangements to customers who purchase our products and services. Other customer financing relates to guarantees provided to our customers, or their creditors, regarding the repurchase of inventories and lease and credit financing. We estimate the receivables for which we do not expect full collection based on historical collection rates and specific knowledge regarding the current creditworthiness of our customers. An allowance is recorded in our consolidated financial statements for these amounts.

If the frequency and severity of customer defaults due to our customers' financial condition or general economic conditions change, our allowance for uncollectible accounts may require adjustment. As a result, we continuously monitor outstanding receivables and other customer financing and adjust allowances for accounts where collection may be in doubt. In addition, in 2007, sales to our ten largest customers accounted for approximately 51% of our total consolidated revenues. Sales to our largest customer, Caremark RX, Inc., represented approximately 11% of our 2007 total consolidated revenues. At March 31, 2007, accounts receivable from our ten largest customers and Caremark RX, Inc. were approximately 48% and 12% of total accounts receivable. As a result, our sales and credit concentration is significant. Any defaults in payment or a material reduction in purchases from this or any other large customer could have a significant negative impact on our financial condition, results of operations and liquidity.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

At March 31, 2007, trade and notes receivables were \$5,896 million, and other customer financing was \$100 million, prior to allowances of \$150 million. In 2007, 2006 and 2005 our provision for bad debts was \$24 million, \$26 million, and \$16 million. At March 31, 2007 and 2006, the allowance as a percentage of trade and notes receivables was 2.6% and 2.3%. Additional information concerning our allowance for doubtful accounts may be found in Schedule II included this Annual Report on Form 10-K.

Inventories: We state inventories at the lower of cost or market. Inventories for our Pharmaceutical Solutions and Medical-Surgical Solutions segments consist of merchandise held for resale. For our Pharmaceutical Solutions segment, the majority of the cost of domestic inventories was determined on the LIFO method and international inventories are stated using the first-in, first-out ("FIFO") method. Cost of inventories for our Medical-Surgical Solutions segment was primarily determined on the FIFO method. Provider Technologies' inventories consist of computer hardware with cost determined by the standard cost method. Total inventories were \$8.2 billion and \$7.1 billion at March 31, 2007 and 2006.

The LIFO method was used to value approximately 87% of our inventories at March 31, 2007 and 2006. If the FIFO method, which approximates replacement cost, had been applied, total inventories would have increased \$92 million and \$156 million at March 31, 2007 and 2006. In addition, we recorded LIFO benefit reserve adjustments of \$64 million, \$32 million and \$59 million in 2007, 2006 and 2005. LIFO adjustments generally represent the net effect of the amount of price increases on branded pharmaceutical products held in inventory offset by price declines on generic pharmaceutical products, including the price decrease effect of branded pharmaceutical products that have lost patent protection. A LIFO benefit implies that the price declines on generic pharmaceutical products, including the effect of branded pharmaceuticals that have lost patent protection, exceeded the effect of price increases on branded pharmaceutical products held in inventory. Our remaining pharmaceutical LIFO reserve of approximately \$18 million is expected to be used in 2008.

In determining whether inventory valuation issues exist, we consider various factors including estimated quantities of slow-moving inventory by reviewing on-hand quantities, outstanding purchase obligations and forecasted sales. Shifts in market trends and conditions, changes in customer preferences due to the introduction of generic drugs or new pharmaceutical products, or the loss of one or more significant customers are factors that could affect the value of our inventories. These factors could make our estimates of inventory valuation differ from actual results.

Acquisitions: We account for acquired businesses using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Amounts allocated to acquired in-process research and development are expensed at the date of acquisition. The judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact our results of operations. Accordingly, for significant items, we typically obtain assistance from third party valuation specialists. The valuations are based on information available near the acquisition date and are based on expectations and assumptions that have been deemed reasonable by management.

There are several methods that can be used to determine the fair value of assets acquired and liabilities assumed. For intangible assets we typically use the income method. This method starts with a forecast of all of the expected future net cash flows. These cash flows are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. Some of the more significant estimates and assumptions inherent in the income method or other methods include the amount and timing of projected future cash flows; the discount rate selected to measure the risks inherent in the future cash flows; and the assessment of the asset's life cycle and the competitive trends impacting the asset, including consideration of any technical, legal, regulatory, or economic barriers to entry. Determining the useful life of an intangible asset also requires judgment as different types of intangible assets will have different useful lives and certain assets may even be considered to have indefinite useful lives.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Goodwill: We have significant goodwill assets as a result of acquiring businesses. We maintain goodwill assets on our books unless the assets are deemed to be impaired. We perform an impairment test on goodwill balances annually or when indicators of impairment exist. Such impairment tests require that we first compare the carrying value of net assets to the estimated fair value of net assets for the operations in which goodwill is assigned. If carrying value exceeds fair value, a second step would be performed to calculate the amount of impairment. Fair values can be determined using market, income or cost approaches. To estimate the fair value of a business using the market approach, we compare the business to similar businesses or guideline companies whose securities are actively traded in public markets or the income approach, where we use a discounted cash flow model in which cash flows anticipated over several periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate rate of return.

Some of the more significant estimates and assumptions inherent in the goodwill impairment estimation process using the market approach include the selection of appropriate guideline companies, the determination of market value multiples for the guideline companies, the subsequent selection of an appropriate market value multiple for the business based on a comparison of the business to the guideline companies, the determination of applicable premiums and discounts based on any differences in marketability between the business and the guideline companies and when considering the income approach, include the required rate of return used in the discounted cash flow method, which reflects capital market conditions and the specific risks associated with the business. Other estimates inherent in the income approach include long-term growth rates and cash flow forecasts for the business.

Estimates of fair value result from a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions at a point in time. The judgments made in determining an estimate of fair value can materially impact our results of operations. The valuations are based on information available as of the impairment review date and are based on expectations and assumptions that have been deemed reasonable by management. Any changes in key assumptions, including unanticipated events and circumstances, may affect the accuracy or validity of such estimates and could potentially result in an impairment charge.

In September 2006, we sold our Medical-Surgical Solutions segment's Acute Care supply business and allocated \$79 million of the segment's goodwill to the divested business. The allocation was based on the relative fair values of the Acute Care business and continuing businesses that were retained by the Company, as determined by a third-party valuation. Goodwill at March 31, 2007 and 2006 was \$2,975 million and \$1,637 million and we concluded that there was no impairment of our goodwill.

Supplier Reserves: We establish reserves against amounts due from our suppliers relating to various price and rebate incentives, including deductions or billings taken against payments otherwise due to them from us. These reserve estimates are established based on our best judgment after carefully considering the status of current outstanding claims, historical experience with the suppliers, the specific incentive programs and any other pertinent information available to us. We evaluate amounts due from our suppliers on a continual basis and adjust the reserve estimates when appropriate based on changes in factual circumstances. As of March 31, 2007 and 2006, supplier reserves were \$100 million and \$97 million. Approximately 80% of the supplier reserves at March 31, 2007 and 2006 pertains to our Pharmaceutical Solutions segment. A hypothetical 0.1% percentage increase or decrease in the supplier reserve as a percentage of trade payables would have resulted in an increase or decrease in the cost of sales of approximately \$11 million in 2007. The ultimate outcome of any amounts due from our suppliers may be different than our estimate.

Income Taxes: Our income tax expense, deferred tax assets and liabilities reflect management's best assessment of estimated future taxes to be paid. We are subject to income taxes in both the U.S. and numerous foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax provision.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets we consider all available positive and negative evidence including our past operating results, the existence of cumulative net operating losses in the most recent years and our forecast of future taxable income. In estimating future taxable income, we develop assumptions including the amount of future state, federal and foreign pretax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we are using to manage the underlying businesses.

Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. Management is not aware of any such changes that would have a material effect on the Company's results of operations, cash flows or financial position.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations in a multitude of jurisdictions across our global operations. We recognize liabilities based on our estimate of whether additional taxes will be due. These liabilities are recorded when, despite our belief that our tax return positions are supportable, we believe that certain positions are likely to be challenged and may not be fully sustained upon audit by tax authorities in the U.S and other countries. These tax liabilities are reflected net of related tax loss carryforwards. We adjust these liabilities in light of changing facts and circumstances; however, due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense as discrete items in the period in which they are determined. If the tax liabilities relate to tax uncertainties existing at the date of the acquisition of a business, the adjustment of such tax liabilities will result in an adjustment to the goodwill recorded at the date of acquisition.

If our assumptions and estimates described above were to change, an increase/decrease of 1% in our effective tax rate as applied to income from continuing operations would have increased/decreased tax expense by approximately \$13 million for 2007.

As discussed in Financial Note 1, "Significant Accounting Policies" under the caption "New Accounting Pronouncements," in the first quarter of 2008, we are required to adopt the provisions of Financial Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes". FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." This standard also provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The amount recognized is measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlements. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. While we are assessing the impact of FIN No. 48 on our consolidated financial statements, we currently estimate the cumulative effect upon adoption of FIN No. 48 may result in a decrease to shareholders' equity of up to \$100 million. The estimated impact is subject to revision as we complete the analysis. We will continue to classify interest and penalties to be paid on an underpayment of income taxes as income taxes in our consolidated statements of operations.

Share-Based Payment: Our compensation programs include share-based payments. Beginning in 2007, we account for all share-based payment transactions using a fair-value based measurement method required by SFAS No. 123(R), "Share-Based Payment." We adopted SFAS No. 123(R) using the modified prospective method of transition. The share-based compensation expense is recognized for the portion of the awards that is ultimately expected to vest on a straight-line basis over the requisite service period for those awards with graded vesting and service conditions. For the awards with performance conditions, we recognize the expense on a straight-line basis, treating each vesting tranche as a separate award. Upon adoption of SFAS No. 123(R), in the first quarter of 2007, we elected the "short-cut" method for calculating the beginning balance of the additional paid-in capital pool related to the tax effects of share-based compensation.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

We estimate the grant-date fair value of employee stock options using the Black-Scholes option-pricing model. We believe that it is difficult to accurately measure the value of an employee stock option. Our estimates of employee stock option values rely on estimates of factors we input into the model. The key factors involve an estimate of future uncertain events. The key factors influencing the estimation process, among others, are the expected term of the option, the expected stock price volatility factor and the expected dividend yield. We continue to use historical exercise patterns as our best estimate of future exercise patterns in determining our expected term of the option. We use a combination of historical and quoted implied volatility to determine the expected stock price volatility factor. We believe that this market-based input provides a better estimate of our future stock price movements and is consistent with emerging employee stock option valuation considerations. Our expected stock price volatility assumption continues to reflect a constant dividend yield during the expected term of the option. Once the fair values of employee stock options are determined, current accounting practices do not permit them to be changed, even if the estimates used are different from actual.

In addition, we develop an estimate of the number of share-based awards which will ultimately vest primarily based on historical experiences. Changes in the estimated forfeiture rate can have a material effect on share-based compensation expense. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment is made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment is made to decrease the estimated forfeiture rate, which will result in an increase to the expense recognized in the financial statements. We re-assess the estimated forfeiture rate established upon grant periodically throughout the required service period. Such estimates are revised if they differ materially from actual forfeitures. As required, the forfeiture estimates will be adjusted to reflect actual forfeitures when an award vests. The actual forfeitures in the future reporting periods could be materially higher or lower than our current estimates.

Our assessments of estimated share-based compensation charges are affected by our stock price as well as assumptions regarding a number of complex and subjective variables and the related tax impact. These variables include, but are not limited to, the volatility of our stock price, employee stock option exercise behaviors, timing, level and types of our grants of annual share-based awards and the attainment of performance goals. As a result, the future share-based compensation expense may differ from the Company's historical amounts. In 2007, share-based compensation charges amounted to \$0.13 per diluted share, or approximately \$0.10 per diluted share more than the share-based compensation expense recognized in our net income in 2006.

Prior to the adoption of SFAS No. 123(R), we accounted for our employee stock-based compensation plans using the intrinsic value method under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Under this policy, since the exercise price of stock options we granted was generally set equal to the market price on the date of the grant, we did not record any expense to the income statement related to the grants of stock options, unless certain original grant-date terms were subsequently modified. The pro forma effect on net income (loss) and diluted earnings (loss) per common share required under the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," for the years ended March 31, 2006 and 2005 is set forth in Financial Note 19, "Share-Based Payment."

Loss Contingencies: We are subject to various claims, pending and potential legal actions for product liability and other damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of business. Each significant matter is regularly reviewed and assessed for potential financial exposure. If a potential loss is considered probable and can be reasonably estimated, we accrue a liability in the consolidated financial statements. The assessment of probability and estimation of amount is highly subjective and requires significant judgment due to uncertainties related to these matters and is based on the best information available at the time. The accruals are adjusted, as appropriate as additional information becomes available. The amount of actual loss may differ significantly from these estimates.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

Net cash flow from operating activities was \$1,539 million in 2007, compared with \$2,738 million in 2006 and \$1,543 million in 2005. Operating activities for 2007 benefited from improved accounts receivable management, reflecting changes in our customer mix, our termination of a customer contract and an increase in accounts payable associated with improved payment terms. These benefits were partially offset by increases in inventory needed to support our growth and timing of inventory receipts. Cash flows from operations can be significantly impacted by factors such as the timing of receipts from customers and payments to vendors. Operating activities for 2007 also reflect payments of \$25 million for the settlements of Securities Litigation cases.

Net cash flow from operations in 2006 increased primarily reflecting improved working capital balances for our U.S. pharmaceutical distribution business as purchases from certain of our suppliers became better aligned with customer demand and as a result, net financial inventory (inventory, net of accounts payable) decreased. Operating activities for 2006 also benefited from better inventory management. Operating activities for 2006 include a \$143 million cash receipt in connection with an amended agreement entered into with a customer and cash settlement payments of \$243 million for the Securities Litigation. Additionally, cash flows from operations for 2006 include a reduction in current income taxes payable and a reduction in our deferred tax assets which largely pertain to our Securities Litigation cash settlement payments (including the \$962 million placed in escrow), which was deducted in our 2006 income tax return. Net cash flow from operating activities in 2005 includes a \$1,200 million non-cash (\$810 million after-tax) charge for the Securities Litigation.

Net cash used in investing activities was \$2,103 million in 2007, compared with \$1,816 million in 2006 and \$360 million in 2005. Investing activities for 2007 reflect payments of \$1,938 million for our business acquisitions (including \$1.8 billion for Per-Se) and \$36 million for our investment in Parata. Investing activities for 2007 also reflect \$179 million of cash proceeds from the sale of our businesses, including \$164 million for the sale of our Acute Care business. Investing activities for 2006 include increases in property acquisitions and capitalized software expenditures which primarily reflect our investment in our U.S. pharmaceutical distribution center network and our Provider Technologies segment's investment in software for a contract with the British government's National Health Services Information Authority organization. Investing activities for 2006 also include \$589 million of expenditures for our business acquisitions, including D&K, and a use of cash of \$962 million due to a transfer of cash to an escrow account for future payment of our Securities Litigation. Partially offsetting these increases were cash proceeds of \$63 million pertaining to the sale of BioServices. Investing activities for 2005 include \$76 million of business acquisition primarily for MMC and \$33 million for the increased investment in Nadro.

Financing activities provided cash of \$379 million in 2007 and utilized cash of \$583 million and \$91 million in 2006 and 2005. On March 5, 2007, we issued \$500 million of 5.25% notes due 2013 and \$500 million of 5.70% notes due 2017. Net proceeds from the issuance after offering expenses of the notes of \$990 million were used, together with cash on hand, to repay \$1.0 billion of short-term borrowings then outstanding under the interim facility we entered into in connection with the acquisition of Per-Se. Financing activities for 2007 also include \$1.0 billion of cash paid for stock repurchases, partially offset by \$399 million of cash receipts from common stock issuances. Cash received from common stock issuances primarily represent employees' exercises of stock options. Financing activities for 2006 include \$958 million of cash paid for stock repurchases and \$102 million of cash paid for the repayment of life insurance policy loans, which was partially offset by \$568 million of cash receipts from common stock issuances. Financing activities for 2005 include repayment of \$268 million of long-term debt partially offset by \$223 million of cash receipts from common stock issuances. Cash dividends paid in 2007, 2006 and 2005 were \$72 million, \$73 million and \$70 million.

The Company's Board of Directors (the "Board") approved share repurchase plans in October 2003, August 2005, December 2005 and January 2006 which permitted the Company to repurchase up to a total of \$1 billion (\$250 million per plan) of the Company's common stock. Under these plans, we repurchased 19 million shares for \$958 million during 2006 and made no repurchases in 2005. As of March 31, 2006, less than \$1 million remained available for future repurchases under the January 2006 plan and all of these other plans were completed.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

In April and July 2006, the Board approved two new share repurchase plans which permitted the Company to repurchase up to an additional \$1 billion (\$500 million per plan) of the Company's common stock. During 2007, we repurchased a total of 20 million shares for \$1.0 billion. As a result of these repurchases, we effectively completed all of the 2007 share repurchase plans.

On April 25, 2007, the Board approved an additional share repurchase plan of up to \$1.0 billion of the Company's common stock. Repurchased shares are used to support our stock-based employee compensation plans and for other general corporate purposes. Stock repurchases may be made from time to time in open market or private transactions.

Selected Measures of Liquidity and Capital Resources:

(Dollars in millions)	March 31,		
	2007	2006	2005
Cash and cash equivalents	\$ 1,954	\$ 2,139	\$ 1,800
Working capital	2,730	3,527	3,658
Debt, net of cash and cash equivalents	4	(1,148)	(589)
Debt to capital ratio ⁽¹⁾	23.8%	14.4%	18.7%
Net debt to net capital employed ⁽²⁾	0.1%	(24.1)%	(12.6)%
Return on stockholders' equity ⁽³⁾	15.2%	13.1%	(3.0)%

(1) Ratio is computed as total debt divided by total debt and stockholders' equity.

(2) Ratio is computed as total debt, net of cash and cash equivalents ("net debt"), divided by net debt and stockholders' equity ("net capital employed").

(3) Ratio is computed as net income (loss), divided by a five-quarter average of stockholders' equity.

Working capital primarily includes cash, receivables and inventories, net of drafts and accounts payable and other liabilities. Our Pharmaceutical Solutions segment requires a substantial investment in working capital that is susceptible to large variations during the year as a result of inventory purchase patterns and seasonal demands. Inventory purchase activity is a function of sales activity, new customer build-up requirements and for 2006, the number and timing of fee-based arrangements with pharmaceutical manufacturers. In 2007, our working capital decreased primarily as a result of increases in other liabilities and deferred revenue. Net financial inventory (inventory, net of drafts and accounts payable) resulted in a small increase to working capital in 2007. Working capital in 2006 also decreased primarily due to a decrease in our net financial inventory, partially offset by improvements in our cash, cash equivalent and restricted cash balances and an increase in our accounts receivable. Improvements in our net financial inventory primarily reflect a better alignment of our purchases with customer demand for our U.S. pharmaceutical distribution business.

Our ratio of net debt to net capital employed decreased in 2007 primarily due to our issuance of \$1.0 billion of long-term debt in relation with the Per-Se acquisition. Our ratio of net debt to net capital employed declined in 2006 as growth in our operating profit was in excess of the growth in working capital and other investments needed to fund increases in revenue.

The Company has paid quarterly cash dividends at the rate of \$0.06 per share on its common stock since the fourth quarter of 1999. A dividend of \$0.06 per share was declared by the Board on January 24, 2007, and was paid on April 2, 2007 to stockholders of record at the close of business on March 1, 2007. The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon the Company's future earnings, financial condition, capital requirements and other factors.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Financial Obligations and Commitments:

The table below presents our significant financial obligations and commitments at March 31, 2007:

(In millions)	Total	Years			
		Within 1	Over 1 to 3	Over 3 to 5	After 5
On balance sheet					
Securities Litigation	\$ 983	\$ 983	\$ -	\$ -	\$ -
Long-term debt	1,958	156	226	404	1,172
Other ⁽¹⁾	311	29	47	52	183
Off balance sheet					
Purchase obligations	2,708	2,503	132	34	39
Interest on borrowings	927	129	238	195	365
Customer guarantees	102	20	31	1	50
Operating lease obligations	460	98	151	103	108
Total	\$ 7,449	\$ 3,918	\$ 825	\$ 789	\$ 1,917

(1) Primarily includes estimated payments for pension and postretirement plans.

We define a purchase obligation as an arrangement to purchase goods or services that is enforceable and legally binding on the Company. These obligations primarily relate to inventory purchases, capital commitments and service agreements.

We have agreements with certain of our customers' financial institutions (primarily for our Canadian business) under which we have guaranteed the repurchase of inventory at a discount in the event these customers are unable to meet certain obligations to those financial institutions. Among other limitations, these inventories must be in resalable condition. We have also guaranteed loans and credit facilities for some customers and we are a secured lender for substantially all of these guarantees. Customer guarantees range from one to seven years and were primarily provided to facilitate financing for certain strategic customers. At March 31, 2007, the maximum amounts of inventory repurchase guarantees and other customer guarantees were \$96 million and \$4 million. We consider it unlikely that we would make significant payments under these guarantees, and accordingly, amounts accrued for these guarantees were nominal.

In addition, our banks and insurance companies have issued \$99 million of standby letters of credit and surety bonds on our behalf in order to meet the security requirements for statutory licenses and permits, court and fiduciary obligations, and our workers' compensation and automotive liability programs.

Credit Resources:

We fund our working capital requirements primarily with cash, short-term borrowings and our receivables sale facility. We have a \$1.3 billion five-year, senior unsecured revolving credit facility that expires in September 2009. Borrowings under this credit facility bear interest based upon either a Prime rate or the London Interbank Offering Rate ("LIBOR"). In June 2006, we renewed our committed accounts receivable sales facility. The facility was renewed under substantially similar terms to those previously in place with the exception that the facility was reduced to \$700 million from \$1.4 billion. The renewed facility expires in June 2007. At March 31, 2007 and March 31, 2006, no amounts were outstanding under any of these facilities.

In connection with our purchase of Per-Se in January 2007, we entered into a single-draw \$1.8 billion interim credit facility. The interim credit facility was a 364-day unsecured facility which had terms substantially similar to those contained in the Company's existing revolving credit facility. On January 26, 2007, we borrowed \$1.0 billion under the interim credit facility to partially fund the Per-Se acquisition. On March 5, 2007, we issued \$500 million of 5.25% notes due 2013 and \$500 million of 5.70% notes due 2017. The notes are redeemable at any time, in whole or in part, at our option. In addition, upon occurrence of both a change of control and a ratings downgrade of the notes to non-investment-grade levels, we are required to make an offer to redeem the notes at a price equal to 101% of the principal amount plus accrued interest. We utilized net proceeds after offering expenses from the

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

issuance of the notes of \$990 million, together with cash on hand, to repay the \$1 billion short-term credit facility borrowings.

Our senior debt credit ratings from S&P, Fitch, and Moody's are currently BBB, BBB+ and Baa3, and our commercial paper ratings are currently A-2, F-2 and P-3. Our ratings outlook is positive with S&P and stable with Fitch and Moody's. Our various borrowing facilities and certain long-term debt instruments are subject to covenants. Our principal debt covenant is our debt to capital ratio, which cannot exceed 56.5%. If we exceed this ratio, repayment of debt outstanding under the revolving credit facility and \$215 million of term debt could be accelerated. At March 31, 2007, this ratio was 23.8% and we were in compliance with all other covenants. A reduction in our credit ratings or the lack of compliance with our covenants could result in a negative impact on our ability to finance our operations.

Funds necessary for the resolution of future debt maturities and our other cash requirements are expected to be met by existing cash balances, cash flows from operations, existing credit sources and other capital market transactions.

MARKET RISKS

Interest rate risk: Our long-term debt bears interest predominately at fixed rates, whereas our short-term borrowings are at variable interest rates. If the underlying weighted average interest rate on our variable rate debt were to have changed by 50 bp in 2007 and 2006, interest expense would not have been materially different from that reported.

As of March 31, 2007 and 2006, the net fair value liability of financial instruments with exposure to interest rate risk was approximately \$2,036 million and \$1,082 million. Fair value was estimated on the basis of quoted market prices, although trading in these debt securities is limited and may not reflect fair value. Fair value is subject to fluctuations based on our performance, our credit ratings, changes in the value of our stock and changes in interest rates for debt securities with similar terms.

Foreign exchange risk: We derive revenues and earnings from Canada, the United Kingdom, Ireland, France, the Netherlands, Israel, Australia, New Zealand and Mexico, which expose us to changes in foreign exchange rates. We seek to manage our foreign exchange risk in part through operational means, including managing same currency revenues in relation to same currency costs, and same currency assets in relation to same currency liabilities. Foreign exchange risk is also managed through the use of foreign currency forward-exchange contracts. These contracts are used to offset the potential earnings effects from mostly intercompany foreign currency investments and loans. As of March 31, 2007 and 2006, an adverse 10% change in quoted foreign currency exchange rates would not have had a material impact on our net fair value of financial instruments that have exposure to foreign currency risk.

RELATED PARTY BALANCES AND TRANSACTIONS

Information regarding our related party balances and transactions is included in "Critical Accounting Policies and Estimates" appearing within this Financial Review and Financial Note 20, "Related Party Balances and Transactions," to the accompanying consolidated financial statements.

NEW ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements that impact the Company are included in Financial Note 1, "Significant Accounting Policies", to our consolidated financial statements, under the captions "Share-Based Payment" and "New Accounting Pronouncements".

FACTORS AFFECTING FORWARD-LOOKING STATEMENTS

In addition to historical information, management's discussion and analysis includes certain forward-looking statements within the meaning of section 27A of the Securities Act of 1933, as amended and section 21E of the Securities Exchange Act of 1934, as amended. Some of the forward-looking statements can be identified by use of forward-looking words such as "believes," "expects," "anticipates," "may," "should," "seeks," "approximately,"

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

“intends,” “plans,” or “estimates,” or the negative of these words, or other comparable terminology. The discussion of financial trends, strategy, plans or intentions may also include forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected anticipated or implied. Although it is not possible to predict or identify all such risks and uncertainties, they may include, but are not limited to, the factors discussed under “Additional Factors That May Affect Future Results.” The reader should not consider this list to be a complete statement of all potential risks and uncertainties.

These and other risks and uncertainties are described herein or in our other public documents. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof, or to reflect the occurrence of unanticipated events.

ADDITIONAL FACTORS THAT MAY AFFECT FUTURE RESULTS

The following additional factors may affect our future results:

Adverse resolution of pending Securities Litigation regarding the restatement of our historical financial statements may cause us to incur material losses.

As discussed in Financial Note 17, “Other Commitments and Contingent Liabilities,” to the accompanying consolidated financial statements, in the third quarter of 2005, we announced that we had reached an agreement to settle the action captioned *In re McKesson HBOC, Inc. Securities Litigation* (No. C-99-20743-RMW) (the “Consolidated Action”). In general, we agreed to pay the settlement class a total of \$960 million in cash. During the third quarter of 2005, we recorded a \$1,200 million pre-tax (\$810 million after-tax) charge with respect to the Company’s Securities Litigation. The charge consisted of \$960 million for the Consolidated Action and \$240 million for other Securities Litigation proceedings.

On February 24, 2006, the court gave final approval to the settlement of the Consolidated Action, and as a result, we paid approximately \$960 million into an escrow account established by the lead plaintiff in connection with the settlement. Based on the payments made in the Consolidated Action and payments made to settle other previously reported Securities Litigation proceedings, and based on our assessment of the remaining cases, the estimated Securities Litigation accruals as of March 31, 2007 and 2006 were \$983 million and \$1,014 million. We believe this accrual is adequate to address our remaining potential exposure with respect to all of the Securities Litigation matters. However, in view of the number and uncertainties of the timing and outcome of this type of litigation, and the substantial amounts involved, it is possible that the ultimate costs of these matters could impact our earnings, either negatively or positively, in the quarter of their resolution. We do not believe that the resolution of these matters will have a material adverse effect on our results of operations, liquidity or financial position taken as a whole.

Changes in the United States healthcare environment could have a material negative impact on our revenues and net income.

Our products and services are primarily intended to function within the structure of the healthcare financing and reimbursement system currently being used in the United States. In recent years, the healthcare industry has changed significantly in an effort to reduce costs. These changes include increased use of managed care, cuts in Medicare and Medicaid reimbursement levels, consolidation of pharmaceutical and medical-surgical supply distributors, and the development of large, sophisticated purchasing groups.

We expect the healthcare industry to continue to change significantly in the future. Some of these changes, such as adverse changes in government funding of healthcare services, legislation or regulations governing the privacy of patient information, or the delivery or pricing of pharmaceuticals and healthcare services or mandated benefits, may cause healthcare industry participants to greatly reduce the amount of our products and services they purchase or the price they are willing to pay for our products and services.

Changes in the healthcare industry’s, or any of our individual or collective group of pharmaceutical suppliers’, pricing, selling, inventory, distribution or supply policies or practices, or changes in our customer mix could also significantly reduce our revenues and net income. Due to the diverse range of healthcare supply management and

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

healthcare information technology products and services that we offer, such changes could have an adverse impact on our results of operations, while not affecting some of our competitors who offer a narrower range of products and services.

The majority of our U.S. pharmaceutical distribution business' agreements with manufacturers are structured to ensure that we are appropriately and predictably compensated for the services we provide; however, failure to successfully renew these contracts in a timely and favorable manner could have an adverse impact on our results of operations.

Healthcare and public policy trends indicate that the number of generic drugs will increase over the next few years as a result of the expiration of certain drug patents. In recent years, our revenues and gross margins have increased from our generic drug offering programs. An increase or a decrease in the availability or changes in pricing or reimbursement of these generic drugs could have an adverse impact on our results of operations.

There have been increasing efforts by various levels of government including state boards of pharmacy and comparable agencies to regulate the pharmaceutical distribution system in order to prevent the introduction of counterfeit, adulterated, and/or mislabeled drugs into the pharmaceutical distribution system ("pedigree tracking"). Certain states have adopted or are considering laws and regulations that are intended to protect the integrity of the pharmaceutical distribution system while other government agencies are currently evaluating their recommendations. Florida has adopted pedigree-tracking requirements and California has enacted a law requiring chain of custody technology using radio frequency tagging and electronic pedigrees. Final regulations under the federal Prescription Drug Marketing Act requiring pedigree and chain of custody tracking in certain circumstances became effective December 1, 2006. This latter regulation has been challenged in a case brought by secondary distributors. A preliminary injunction was issued by the federal District Court for the Eastern District of New York that temporarily enjoined implementation of this regulation. These pedigree tracking laws and regulations could increase the overall regulatory burden and costs associated with our pharmaceutical distribution business, and could have an adverse impact on our results of operations.

We are subject to extensive and frequently changing local, state and federal laws and regulations relating to healthcare fraud. The federal government continues to strengthen its position and scrutiny over practices involving healthcare fraud affecting Medicare, Medicaid and other government healthcare programs. Furthermore, our relationships with pharmaceutical and medical-surgical product manufacturers and healthcare providers subject our business to laws and regulations on fraud and abuse. Many of the regulations applicable to us, including those relating to marketing incentives offered by pharmaceutical or medical-surgical suppliers, are vague or indefinite and have not been interpreted by the courts. They may be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that could require us to make changes in our operations. If we fail to comply with applicable laws and regulations, we could suffer civil and criminal penalties, including the loss of licenses or our ability to participate in Medicare, Medicaid and other federal and state healthcare programs.

Medical billing and collection activities are governed by numerous federal and state civil and criminal laws that pertain to companies that provide billing and collection services, or that provide consulting services in connection with billing and collection activities. In connection with these laws, we may be subjected to federal or state government investigations and possible penalties may be imposed upon us, false claims actions may have to be defended, private payers may file claims against us, and we may be excluded from Medicare, Medicaid or other government-funded healthcare programs. Any such proceeding or investigation could have an adverse impact on our results of operations.

Competition may erode our profit.

In every area of healthcare distribution operations, our Pharmaceutical Solutions and Medical-Surgical Solutions segments face strong competition, both in price and service, from national, regional and local full-line, short-line and specialty wholesalers, service merchandisers, self-warehousing chains, manufacturers engaged in direct distribution and large payor organizations. In addition, these segments face competition from various other service providers and from pharmaceutical and other healthcare manufacturers (as well as other potential customers of the segments) which may from time to time decide to develop, for their own internal needs, supply management capabilities which are provided by the segments and other competing service providers. Price, quality of service, and, in some cases, convenience to the customer are generally the principal competitive elements in these segments.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Our Provider Technologies segment experiences substantial competition from many firms, including other computer services firms, consulting firms, shared service vendors, certain hospitals and hospital groups, hardware vendors and Internet-based companies with technology applicable to the healthcare industry. Competition varies in size from small to large companies, in geographical coverage, and in scope and breadth of products and services offered. These competitive pressures could have an adverse impact on our results of operations.

Our Pharmaceutical Solutions segment is subject to inflation in branded pharmaceutical prices and deflation in generic pharmaceutical prices, which subjects us to risks and uncertainties.

Certain of our U.S. pharmaceutical distribution business' agreements entered into with branded pharmaceutical manufacturers are partially inflation-based. A slowing in the frequency or rate of branded price increases could have an adverse impact on our results of operations. In addition, we also distribute generic pharmaceuticals, which are subject to price deflation. An acceleration of the frequency or rate of generic price decreases could also have an adverse impact on our results of operations.

Substantial defaults in payment or a material reduction in purchases of our products by large customers could have a significant negative impact on our financial condition and results of operations and liquidity.

In recent years, a significant portion of our revenue growth has been with a limited number of large customers. During the year ended March 31, 2007, sales to our ten largest customers accounted for approximately 51% of our total consolidated revenues. Sales to our largest customer, Caremark RX, Inc., represented approximately 11% of our 2007 total consolidated revenues. At March 31, 2007, accounts receivable from our ten largest customers and Caremark RX, Inc. were approximately 48% and 12% of total accounts receivable. As a result, our sales and credit concentration is significant. Any defaults in payment or a material reduction in purchases from this or any other large customer could have an adverse impact on our results of operations.

Our Pharmaceutical Solutions and Medical-Surgical Solutions segments are dependent upon sophisticated information systems. The implementation delay, malfunction or failure of these systems for any extended period of time could adversely affect our business.

We rely on sophisticated information systems in our business to obtain, rapidly process, analyze and manage data to: facilitate the purchase and distribution of thousands of inventory items from numerous distribution centers, receive, process and ship orders on a timely basis, manage the accurate billing and collections for thousands of customers and process payments to suppliers. If these systems are interrupted, damaged by unforeseen events, or fail for any extended period of time, we could have an adverse impact on our results of operations.

We could become subject to liability claims that are not adequately covered by our insurance, and may have to pay damages and other expenses which could have an adverse impact on our results of operations.

Our business exposes us to risks that are inherent in the distribution, manufacturing, dispensing of pharmaceuticals and medical-surgical supplies, the provision of ancillary services, the conduct of our payor businesses (which include disease management programs and our nurse triage services) and the provision of products that assist clinical decision-making and relate to patient medical histories and treatment plans. If customers assert liability claims against our products and/or services, any ensuing litigation, regardless of outcome, could result in a substantial cost to us, divert management's attention from operations and decrease market acceptance of our products. We attempt to limit, by contract, our liability to customers; however, the limitations of liability set forth in the contracts may not be enforceable or may not otherwise protect us from liability for damages. We also maintain general liability coverage; however, this coverage may not continue to be available on acceptable terms or may not be available in sufficient amounts to cover one or more large claims against us. In addition, the insurer might disclaim coverage as to any future claim. A successful product or professional liability claim not fully covered by our insurance could have an adverse impact on our results of operations.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

The failure of our Provider Technologies business to attract and retain customers due to challenges in software product integration or to keep pace with technological advances may significantly reduce our revenues or increase our expenses.

Our Provider Technologies business delivers enterprise-wide patient care, clinical, financial, supply chain, strategic management software solutions and pharmacy automation to hospitals, physicians, homecare providers, retail and mail order pharmacies and payors. Challenges in integrating Provider Technologies software products could impair our ability to attract and retain customers and could have an adverse impact on our results of operations.

Future advances in the healthcare information systems industry could lead to new technologies, products or services that are competitive with the products and services offered by our Provider Technologies business. Such technological advances could also lower the cost of such products and services or otherwise result in competitive pricing pressure. The success of our Provider Technologies business will depend, in part, on its ability to be responsive to technological developments, pricing pressures and changing business models. To remain competitive in the evolving healthcare information systems marketplace, our Provider Technologies business must develop new products on a timely basis. The failure to develop competitive products and to introduce new products on a timely basis could curtail the ability of our Provider Technologies business to attract and retain customers and thereby could have an adverse impact on our results of operations.

The loss of third party licenses utilized by our Provider Technologies segment may adversely impact our operating results.

We license the rights to use certain technologies from third-party vendors to incorporate in or complement our Provider Technologies segment's products and solutions. These licenses are generally nonexclusive, must be renewed periodically by mutual consent, and may be terminated if we breach the terms of the license. As a result, we may have to discontinue, delay or reduce product shipments until we obtain equivalent technology, which could hurt our business. Our competitors may obtain the right to use any of the technology covered by these licenses and use the technology to compete directly with us. In addition, if our vendors choose to discontinue support of the licensed technology in the future, we may not be able to modify or adapt our own products.

Proprietary technology protections may not be adequate, and products may be found to infringe the rights of third parties.

We rely on a combination of trade secret, patent, copyright and trademark laws, nondisclosure and other contractual provisions and technical measures to protect our proprietary rights in our products. There can be no assurance that these protections will be adequate or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology. Although we believe that our products do not infringe the proprietary rights of third parties, from time to time third parties have asserted infringement claims against us and there can be no assurance that third parties will not assert infringement claims against us in the future. If we were found to be infringing others' rights, we may be required to pay substantial damage awards and forced to develop non-infringing technology, obtain a license or cease selling the products that contain the infringing technology. Additionally, we may find it necessary to initiate litigation to protect our trade secrets, to enforce our patent, copyright and trademark rights, and to determine the scope and validity of the proprietary rights of others. These types of litigation can be costly and time consuming. These litigation expenses, damage payments, or costs of developing replacement technology could have an adverse impact on our results of operations.

System errors or failures of our products to conform to specifications could cause unforeseen liabilities.

The software and software systems ("systems") that we sell or operate are very complex. As with complex systems offered by others, our systems may contain errors, especially when first introduced. For example, our Provider Technologies' business systems are intended to provide information for healthcare providers in providing patient care. Therefore, users of our systems have a greater sensitivity to errors than the general market for software products. Failure of a client's system to perform in accordance with our documentation could constitute a breach of warranty and could require us to incur additional expense in order to make the system comply with the documentation. If such failure is not remedied in a timely manner, it could constitute a material breach under a

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

contract, allowing the client to cancel the contract, obtain refunds of amounts previously paid, or assert claims for significant damages.

Regulation of our distribution businesses and regulation of our computer-related products could impose increased costs, delay the introduction of new products and negatively impact our business.

The healthcare industry is highly regulated. We are subject to various local, state, federal, foreign and transnational laws and regulations, which include the operating and security standards of the Drug Enforcement Administration (the "DEA"), the Food and Drug Administration (the "FDA"), various state boards of pharmacy, state health departments, the Department of Health and Human Services (the "DHHS"), and other comparable agencies. Certain of our subsidiaries may be required to register for permits and/or licenses with, and comply with operating and security standards of, the DEA, the FDA, DHHS and various state boards of pharmacy, state health departments and/or comparable state agencies as well as foreign agencies and certain accrediting bodies depending upon the type of operations and location of product distribution, manufacturing and sale.

In addition, the FDA has increasingly focused on the regulation of computer products and computer-assisted products as medical devices under the Federal Food, Drug and Cosmetic Act. If the FDA chooses to regulate any of our products as medical devices, it can impose extensive requirements upon us. If we fail to comply with the applicable requirements, the FDA could respond by imposing fines, injunctions or civil penalties, requiring recalls or product corrections, suspending production, refusing to grant pre-market clearance of products, withdrawing clearances and initiating criminal prosecution. Any final FDA policy governing computer products, once issued, may increase the cost and time to market new or existing products or may prevent us from marketing our products.

We regularly receive requests for information and occasionally subpoenas from government authorities. Although we believe that we are in compliance, in all material respects, with applicable laws and regulations, there can be no assurance that a regulatory agency or tribunal would not reach a different conclusion concerning the compliance of our operations with applicable laws and regulations. In addition, there can be no assurance that we will be able to maintain or renew existing permits, licenses or any other regulatory approvals or obtain without significant delay future permits, licenses or other approvals needed for the operation of our businesses. Any noncompliance by us with applicable laws and regulations or the failure to maintain, renew or obtain necessary permits and licenses could have an adverse impact on our results of operations.

New and potential federal regulations relating to patient confidentiality and format and data content standards could depress the demand for our products and impose significant product redesign costs and unforeseen liabilities on us.

State and federal laws regulate the confidentiality of patient records and the circumstances under which those records may be released. These regulations govern both the disclosure and use of confidential patient medical record information and will require the users of such information to implement specified security measures. Regulations currently in place governing electronic health data transmissions continue to evolve and are often unclear and difficult to apply.

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") requires national standards for some types of electronic health information transactions and the data elements used in those transactions, security standards to ensure the integrity and confidentiality of health information and standards to protect the privacy of individually identifiable health information.

Although our systems have been updated and modified to comply with the current requirements of HIPAA, evolving HIPAA-related laws or regulations, such as the claims attachment rule, could restrict the ability of our customers to obtain, use or disseminate patient information. This could adversely affect demand for our products if they are not re-designed in a timely manner in order to meet the requirements of any new regulations that seek to protect the privacy and security of patient data or enable our customers to execute new or modified healthcare transactions. We may need to expend additional capital, research and development and other resources to modify our products to address evolving data security and privacy issues.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

The length of our sales and implementation cycles for our Provider Technologies segment could have an adverse impact on our future operating results.

Many of the solutions offered by our Provider Technologies segment have long sales and implementation cycles, which could range from several months to over two years or more from initial contact with the customer to completion of implementation. How and when to implement, replace, or expand an information system, or modify or add business processes, are major decisions for healthcare organizations. Many of the solutions we provide typically require significant capital expenditures and time commitments by the customer. Any decision by our customers to delay implementation could have an adverse impact on our results of operations. Furthermore, delays or failures to meet milestones established in our agreements may result in a breach of contract, termination of the agreement, damages and/or penalties as well as a reduction in our margins or a delay in our ability to recognize revenue.

Our inability to perform well under chronic disease or impact condition programs could have an adverse effect on our business and results of operations.

Part of our growth strategy focuses on developing health and care support programs to address chronic diseases and medical conditions as well as the overall health of all enrollees of a health plan. Our success in this area, including our ability to recognize revenue, is highly dependent upon the timely receipt of accurate data from health plan customers and our accurate analysis of such data. Data acquisition, data quality control and data analysis are complex processes that carry a risk of untimely, incomplete or inaccurate data from health plan customers or flawed analysis of such data. If we do not receive timely and accurate data from health plan customers or our analyses are flawed, or if we fail to execute on new or modified programs, it could have an adverse impact on our results of operations.

Reduced capacity in the commercial property insurance market exposes us to potential loss.

In order to provide prompt and complete service to our major Pharmaceutical Solutions and Medical-Surgical Solutions customers, we maintain significant product inventory at certain of our distribution centers. While we seek to maintain property insurance coverage in amounts sufficient for our business, there can be no assurance that our property insurance will be adequate or available on acceptable terms. One or more large casualty losses caused by fire, earthquake or other natural disaster in excess of our coverage limits could have an adverse impact on our results of operations.

We may be required to record a significant charge to earnings if our goodwill or amortizable intangible assets become impaired.

We are required under generally accepted accounting principles to test our goodwill for impairment at least annually as well as review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Factors that may be considered a change in circumstances indicating that the carrying value of our intangible assets may not be recoverable include slower growth rates and the loss of a significant customer. We may be required to record a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined. This could have an adverse impact on our results of operations.

McKESSON CORPORATION**FINANCIAL REVIEW (Concluded)****Our operating results and our financial condition may be adversely affected by foreign operations.**

We have operations based in foreign countries, including Canada, the United Kingdom, Europe and other foreign countries, and we have a large investment in Mexico. In the future we look to continue to grow our foreign operations both organically and through acquisitions and investments; however, increasing our foreign operations carries additional risks. Operations outside of the United States may be affected by changes in trade protection laws, policies, measures and other regulatory requirements affecting trade and investment; unexpected changes in regulatory requirements for software, social, political, labor or economic conditions in a specific country or region; import/export regulations in both the United States and foreign countries, and difficulties in staffing and managing foreign operations. Political changes and natural disasters, some of which may be disruptive, can interfere with our supply chain, our customers and all of our activities in a particular location. Additionally, foreign operations expose us to foreign currency fluctuations that could adversely impact our results of operations based on the movements of the applicable foreign currency exchange rates in relation to the U.S. Dollar.

Tax legislation initiatives could adversely affect our net earnings.

We are a large multinational corporation with operations in the United States and international jurisdictions. As such, we are subject to the tax laws and regulations of the United States federal, state and local governments and of many international jurisdictions. From time to time, various legislative initiatives may be proposed that could adversely affect our tax positions. There can be no assurance that our effective tax rate will not be adversely affected by these initiatives. In addition, United States federal, state and local, as well as international, tax laws and regulations are extremely complex and subject to varying interpretations. Although we believe that our historical tax positions are sound and consistent with applicable laws, regulations and existing precedent, there can be no assurance that these tax positions will not be challenged by relevant tax authorities or that we would be successful in any such challenge.

Our business could be hindered if we are unable to complete and integrate acquisitions successfully.

An element of our strategy is to identify, pursue and consummate acquisitions that either expand or complement our business. Integration of acquisitions involves a number of risks including the diversion of management's attention to the assimilation of the operations of businesses we have acquired, difficulties in the integration of operations and systems and the realization of potential operating synergies, the assimilation and retention of the personnel of the acquired companies, challenges in retaining the customers of the combined businesses, and potential adverse effects on operating results. In addition, we may potentially require additional financing in order to fund future acquisitions, which may or may not be attainable. If we are unable to successfully complete and integrate strategic acquisitions in a timely manner, our business and our growth strategies could be negatively affected.

In addition to the above, changes in generally accepted accounting principles and general economic and market conditions could affect future results.

McKESSON CORPORATION

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of McKesson Corporation is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. With the participation of the Chief Executive Officer and the Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in *Internal Control- Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of March 31, 2007.

Deloitte & Touche LLP, an independent registered public accounting firm, has issued an audit report on our management's assessment of our internal control over financial reporting. This audit report appears on page 57 of this Annual Report on Form 10-K.

The scope of management's assessment of the effectiveness of internal control over financial reporting excludes the acquired operations of Per-Se Technologies, Inc., ("Per-Se") because it was acquired on January 26, 2007. Per-Se represents approximately 8% of our total assets at March 31, 2007, and less than 1% of our revenues and net income for the year ended March 31, 2007.

May 9, 2007

/s/ John H. Hammergren
John H. Hammergren
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

/s/ Jeffrey C. Campbell
Jeffrey C. Campbell
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

McKESSON CORPORATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Stockholders and Board of Directors of McKesson Corporation:

We have audited the accompanying consolidated balance sheets of McKesson Corporation and subsidiaries (the "Company") as of March 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three fiscal years in the period ended March 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a). We also have audited management's assessment, included in the accompanying *Management's Annual Report on Internal Control Over Financial Reporting*, that the Company maintained effective internal control over financial reporting as of March 31, 2007 based on criteria established in *Internal Control--Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in *Management's Annual Report on Internal Control Over Financial Reporting*, management excluded from its assessment the internal control over financial reporting at Per-Se Technologies, Inc. ("Per-Se") which was acquired on January 26, 2007 and whose financial statements constitute approximately 8% of total assets and less than 1% of revenues and net income as of and for the year ended March 31, 2007. Accordingly, our audit did not include the internal control over financial reporting at Per-Se. The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these financial statements and financial statement schedule, an opinion on management's assessment, and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of McKesson Corporation and subsidiaries as of March 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three fiscal years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also in our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of March 31, 2007, is fairly stated, in all material respects, based on the criteria established in *Internal Control--Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2007, based on the criteria established in *Internal Control--Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Note 1 to the consolidated financial statements, on April 1, 2006, the Company changed its method of accounting for share-based payment arrangements to conform to Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment." As also discussed in Note 1 to the consolidated financial statements, on March 31, 2007, the Company adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans."

Deloitte & Touche LLP
San Francisco, California
May 9, 2007

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share amounts)

	Years Ended March 31,		
	2007	2006	2005
Revenues	\$ 92,977	\$ 86,983	\$ 79,096
Cost of Sales	88,645	83,206	75,754
Gross Profit	4,332	3,777	3,342
Operating Expenses			
Selling	673	590	531
Distribution	771	686	614
Research and development	284	223	182
Administrative	1,346	1,107	1,031
Securities Litigation charge (credit), net	(6)	45	1,200
Total	3,068	2,651	3,558
Operating Income (Loss)	1,264	1,126	(216)
Interest Expense	(99)	(94)	(118)
Other Income, Net	132	139	68
Income (Loss) from Continuing Operations Before Income Taxes	1,297	1,171	(266)
Income Tax Benefit (Provision)	(329)	(426)	93
Income (Loss) After Income Taxes			
Continuing operations	968	745	(173)
Discontinued operations	(5)	(7)	16
Discontinued operations – gain (loss) on sales, net	(50)	13	-
Net Income (Loss)	\$ 913	\$ 751	\$ (157)
Earnings (Loss) Per Common Share			
Diluted			
Continuing operations	\$ 3.17	\$ 2.36	\$ (0.59)
Discontinued operations	(0.02)	(0.02)	0.06
Discontinued operations – gain (loss) on sales, net	(0.16)	0.04	-
Total	\$ 2.99	\$ 2.38	\$ (0.53)
Basic			
Continuing operations	\$ 3.25	\$ 2.44	\$ (0.59)
Discontinued operations	(0.02)	(0.02)	0.06
Discontinued operations – gain (loss) on sales, net	(0.17)	0.04	-
Total	\$ 3.06	\$ 2.46	\$ (0.53)
Weighted Average Shares			
Diluted	305	316	294
Basic	298	306	294

See Financial Notes

McKESSON CORPORATION

CONSOLIDATED BALANCE SHEETS
(In millions, except per share amounts)

	March 31,	
	2007	2006
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,954	\$ 2,139
Restricted cash	984	962
Receivables, net	6,566	6,247
Inventories	8,153	7,127
Prepaid expenses and other	199	522
Total	<u>17,856</u>	<u>16,997</u>
Property, Plant and Equipment, Net	684	663
Capitalized Software Held for Sale	166	139
Goodwill	2,975	1,637
Intangible Assets, Net	613	116
Other Assets	1,649	1,409
Total Assets	<u>\$ 23,943</u>	<u>\$ 20,961</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Drafts and accounts payable	\$ 10,873	\$ 9,944
Deferred revenue	1,027	827
Current portion of long-term debt	155	26
Securities Litigation	983	1,014
Other	2,088	1,659
Total	<u>15,126</u>	<u>13,470</u>
Postretirement Obligations and Other Noncurrent Liabilities	741	619
Long-Term Debt	1,803	965
Other Commitments and Contingent Liabilities (Note 17)		
Stockholders' Equity		
Preferred stock, \$0.01 par value, 100 shares authorized, no shares issued or outstanding	-	-
Common stock, \$0.01 par value		
Shares authorized: 2007 and 2006 – 800		
Shares issued: 2007 – 341, 2006 – 330	3	3
Additional Paid-in Capital	3,722	3,238
Other Capital	(19)	(75)
Retained Earnings	4,712	3,871
Accumulated Other Comprehensive Income	31	55
ESOP Notes and Guarantees	(14)	(25)
Treasury Shares, at Cost, 2007 – 46 and 2006 – 26	(2,162)	(1,160)
Total Stockholders' Equity	<u>6,273</u>	<u>5,907</u>
Total Liabilities and Stockholders' Equity	<u>\$ 23,943</u>	<u>\$ 20,961</u>

See Financial Notes

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended March 31, 2007, 2006 and 2005
(In millions except per share amounts)

	Common Stock		Additional Paid-in		Other	Retained	Accumulated Other	ESOP Notes	Treasury		Stockholders'	Comprehensive								
	Shares	Amount	Capital	Capital	Earnings	Income (Loss)	Income (Loss)	and Guarantees	Shares	Amount	Equity	Income (Loss)								
Balances, March 31, 2004	297	\$	3	\$	2,047	\$	(43)	\$	3,421	\$	(16)	\$	(53)	(7)	\$	(194)	\$	5,165	\$	<u>690</u>
Issuance of shares under employee plans	9	-			273	(12)								(2)				259		
ESOP note collections								17										17		
Note collections					19													19		
Note reserves					(6)													(6)		
Translation adjustment							45											45		45
Additional minimum pension liability, net of tax of \$(3)							3											3		3
Net loss						(157)												(157)		(157)
Other						1												1		
Cash dividends declared, \$0.24 per common share						(71)												(71)		
Balances, March 31, 2005	306	\$	3	\$	2,320	(42)	3,194	32	(36)	(7)	(196)	5,275	\$							<u>(109)</u>
Issuance of shares under employee plans	18	-			723	(25)					(6)	692								
ESOP note collections								11				11								
Note collections					-							-								
Note reserves					(8)							(8)								
Translation adjustment							24					24								24
Additional minimum pension liability, net of tax of \$2							(4)					(4)								(4)
Net income						751						751								751
Unrealized gain on investments, net of tax of \$(2)							3					3								3
Conversion of Debentures	6	-			195							195								
Repurchase of common stock										(19)	(958)	(958)								
Cash dividends declared, \$0.24 per common share						(74)						(74)								
Balances, March 31, 2006	330	\$	3	\$	3,238	(75)	3,871	55	(25)	(26)	(1,160)	5,907	\$							<u>774</u>
Issuance of shares under employee plans	11	-			399						(2)	397								
Share-based compensation					59							59								
Tax benefit related to issuance of shares under employee plans					68							68								
ESOP note collections								10				10								
Notes rescinded					16							16								
Note reserves					(2)							(2)								
Translation adjustment							33					33								33
Additional minimum pension liability, net of tax of \$(3)							8					8								8
Net income						913						913								913
Unrealized loss on investments, net of tax of \$1							(2)					(2)								(2)
Repurchase of common stock										(20)	(1,000)	(1,000)								
Cash dividends declared, \$0.24 per common share						(72)						(72)								
Adoption of new accounting standard, net of tax of \$37							(63)					(63)								(63)
Other					(42)	42		1				1								
Balances, March 31, 2007	341	\$	3	\$	3,722	(19)	4,712	31	(14)	(46)	(2,162)	6,273	\$							<u>889</u>

See Financial Notes

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Years Ended March 31,		
	2007	2006	2005
Operating Activities			
Net income (loss)	\$ 913	\$ 751	\$ (157)
Discontinued operations, net of income taxes	55	(6)	(16)
Adjustments to reconcile to net cash provided by (used in) operating activities:			
Depreciation	112	109	106
Amortization	183	153	139
Provision for bad debts	24	11	16
Securities Litigation charge (credit), net	(6)	45	1,200
Deferred taxes	167	403	(329)
Other non-cash items	(76)	(48)	(69)
Changes in operating assets and liabilities, net of acquisitions:			
Receivables	(209)	(519)	(325)
Inventories	(928)	601	(654)
Drafts and accounts payable	872	1,104	1,316
Deferred revenue	181	379	88
Taxes	144	(53)	113
Securities Litigation settlement payments	(25)	(243)	-
Proceeds from sale of notes receivable	5	60	59
Other	127	(9)	56
Net cash provided by operating activities	1,539	2,738	1,543
Investing Activities			
Property acquisitions	(126)	(166)	(135)
Capitalized software expenditures	(180)	(160)	(136)
Acquisitions of businesses, less cash and cash equivalents acquired	(1,938)	(589)	(76)
Proceeds from sale of businesses	179	63	12
Restricted cash	(22)	(962)	-
Other	(16)	(2)	(25)
Net cash used in investing activities	(2,103)	(1,816)	(360)
Financing Activities			
Proceeds from issuances of debt, net	1,997	-	-
Repayment of debt	(1,031)	(24)	(268)
Capital stock transactions:			
Issuances	399	568	223
Share repurchases	(1,003)	(958)	-
ESOP notes and guarantees	10	12	16
Dividends paid	(72)	(73)	(70)
Other	79	(108)	8
Net cash provided by (used in) financing activities	379	(583)	(91)
Net increase (decrease) in cash and cash equivalents	(185)	339	1,092
Cash and cash equivalents at beginning of year	2,139	1,800	708
Cash and cash equivalents at end of year	\$ 1,954	\$ 2,139	\$ 1,800
Supplemental Information:			
Cash paid for:			
Interest	\$ 100	\$ 100	\$ 126
Income taxes	137	84	132
Non-cash Transaction:			
Common stock issued in conjunction with redemption of long-term debt	\$ -	\$ 196	\$ -

See Financial Notes

McKESSON CORPORATION

FINANCIAL NOTES

1. Significant Accounting Policies

Nature of Operations: The consolidated financial statements of McKesson Corporation (“McKesson,” the “Company,” or “we” and other similar pronouns) include the financial statements of all majority-owned or controlled companies. Significant intercompany transactions and balances have been eliminated. The Company’s fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references to a particular year shall mean the Company’s fiscal year.

We conduct our business through three segments. Through our Pharmaceutical Solutions segment, we are a leading distributor of ethical and proprietary drugs, and health and beauty care products throughout North America. This segment also provides medical management and specialty pharmaceutical solutions for biotech and pharmaceutical manufacturers, patient and other services for payors, software and consulting and outsourcing services to pharmacies and, through its investment in Parata Systems, LLC (“Parata”), sells automated pharmaceutical dispensing systems for retail pharmacies. Our Medical-Surgical Solutions segment distributes medical-surgical supplies, first-aid products and equipment, and provides logistics and other services within the United States and Canada. Our Provider Technologies segment delivers enterprise-wide patient care, clinical, financial, supply chain, and strategic management software solutions, pharmacy automation for hospitals, as well as connectivity, outsourcing and other services, to healthcare organizations throughout North America, the United Kingdom and other European countries. Its customers include hospitals, physicians, homecare providers, retail pharmacies and payors.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation. The reclassifications are primarily related to discontinued operations (see Financial Note 3, “Discontinued Operations”) and had no impact on net income.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: All highly liquid debt instruments purchased with a maturity of three months or less at the date of acquisition are included in cash and cash equivalents.

Restricted Cash: Cash that is subject to legal restrictions or is unavailable for general operating purposes is classified as restricted cash. At March 31, 2007 and 2006 restricted cash included \$962 million paid into an escrow account for future distribution to class members of our Securities Litigation settlement. The corresponding liability is in current liabilities under the caption “Securities Litigation.” The liability will be discharged at such time as the settlement is declared effective by the court. Refer to Financial Note 17, “Other Commitments and Contingent Liabilities.”

Marketable Securities Available for Sale: We carry our marketable securities which are available for sale at fair value and the net unrealized gains and losses, net of the related tax effect, computed in marking these securities to market have been reported within stockholders’ equity.

Inventories: We state inventories at the lower of cost or market. Inventories for the Pharmaceutical Solutions and Medical-Surgical Solutions segments consist of merchandise held for resale. For our Pharmaceutical Solutions segment, the majority of the cost of domestic inventories is determined on the last-in, first-out (“LIFO”) method and Canadian inventories are stated using the first-in, first-out (“FIFO”) method. Cost of inventories for our Medical-Surgical Solutions segment is primarily determined on the FIFO method. Provider Technologies segment inventories consist of computer hardware with cost determined by the standard cost method. The LIFO method is used to value approximately 87% of our inventories at March 31, 2007 and 2006. Total inventories before the LIFO cost adjustment, which approximates replacement cost, were \$8,244 million and \$7,283 million at March 31, 2007 and 2006. Vendor rebates, cash discounts, allowances and chargebacks received from vendors are generally accounted for as a reduction in the cost of inventory and are recognized when the inventory is sold.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Property, Plant and Equipment: We state our property, plant and equipment at cost and depreciate them on the straight-line method at rates designed to distribute the cost of properties over estimated service lives ranging from one to 30 years.

Capitalized Software Held for Sale: Development costs for software held for sale, which primarily pertain to our Provider Technologies segment, are capitalized once a project has reached the point of technological feasibility. Completed projects are amortized after reaching the point of general availability using the straight-line method based on an estimated useful life of approximately three years. We monitor the net realizable value of capitalized software held for sale to ensure that the investment will be recovered through future sales.

Additional information regarding our capitalized software expenditures is as follows:

(In millions)	Years Ended March 31,		
	2007	2006	2005
Amounts capitalized	\$ 76	\$ 61	\$ 50
Amortization expense	43	51	52
Third-party royalty fees paid	43	33	25

Long-lived Assets: We assess the recoverability of goodwill and indefinite-lived purchased intangible assets on at least an annual basis and other long-lived assets when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Measurement of impairment losses for long-lived assets, including goodwill, which we expect to hold and use, is based on estimated fair values of the assets. Estimates of fair values are based on quoted market prices, when available, the results of valuation techniques utilizing discounted cash flows (using the lowest level of identifiable cash flows) or fundamental analysis. Long-lived assets to be disposed of, either by sale or abandonment, are reported at the lower of carrying amount or fair value less costs to sell. Intangible assets with finite lives (customer lists, technology, trademarks and other) are amortized on a straight-line basis over the estimated useful lives ranging from one to twenty years.

Capitalized Software Held for Internal Use: We amortize capitalized software held for internal use over the assets' estimated useful lives ranging from one to ten years. As of March 31, 2007 and 2006, capitalized software held for internal use was \$465 million and \$435 million, net of accumulated amortization of \$391 million and \$315 million and was included in Other Assets in the consolidated balance sheets.

Insurance Programs: Under our insurance programs, we seek to obtain coverage for catastrophic exposures as well as those risks required to be insured by law or contract. It is our policy to retain a significant portion of certain losses primarily related to workers' compensation and comprehensive general, product, and vehicle liability. Provisions for losses expected under these programs are recorded based upon our estimate of the aggregate liability for claims incurred as well as for claims incurred but not yet reported. Such estimates utilize certain actuarial assumptions followed in the insurance industry.

Revenue Recognition: Revenues for our Pharmaceutical Solutions and Medical-Surgical Solutions segments are recognized when we deliver product and title passes to the customer or when services have been rendered and there are no further obligations to customers.

Revenues are recorded net of sales returns, allowances and rebates. We accrue sales returns based on estimates at the time of sale to the customer. Sales returns from customers were approximately \$1.113 billion, \$933 million and \$845 million in 2007, 2006 and 2005. Taxes collected from customers and remitted to governmental authorities are presented on a net basis; that is, they are excluded from revenues.

The revenues for the Pharmaceutical Solutions segment include large volume sales of pharmaceuticals to a limited number of large customers who warehouse their own product. We order bulk product from the manufacturer, receive and process the product through our central distribution facility and deliver the bulk product (generally in the same form as received from the manufacturer) directly to our customers' warehouses. We also record revenues for direct store deliveries from most of these same customers. Sales to customer warehouses amounted to \$27.6 billion in 2007, \$25.5 billion in 2006 and \$23.8 billion in 2005. Direct store deliveries are

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

shipments from the manufacturer to our customers of a limited category of products that require special handling. We assume the primary liability to the manufacturer for these products.

Based on the criteria of Emerging Issues Task Force (“EITF”) Issue No. 99-19, “Reporting Revenue Gross as a Principal Versus Net as an Agent,” our revenues are recorded gross when we are the primary party obligated in the transaction, take title to and possession of the inventory, are subject to inventory risk, have latitude in establishing prices, assume the risk of loss for collection from customers as well as delivery or return of the product, are responsible for fulfillment and other customer service requirements, or the transactions have several but not all of the these indicators.

Our Pharmaceutical Solutions segment also includes revenues from disease management programs provided to various states’ Medicaid programs. These service contracts include provisions for achieving certain cost-savings and clinical targets. If the targets are not met, a portion, or all, of the revenue must be refunded to the customer. We recognize revenue during the term of the contract by assessing our actual performance compared to targets and then determining the amount the customer would be legally obligated to pay if the contract terminated at that point. These assessments include estimates of medical claims and other data, which could require future adjustment because there is generally a significant time delay between recording the accrual and the final settlement of the contract. If data is insufficient to assess performance or we have not met the targets, we defer recognition of the revenue. As of March 31, 2007 and 2006, we had deferred \$104 million and \$96 million related to these contracts, which was included in current deferred revenue in the consolidated balance sheets. We generally have been successful in achieving performance goals under these contracts.

Revenues for our Provider Technologies segment are generated primarily by licensing software systems (consisting of software, hardware and maintenance support), and providing outsourcing and professional services. Revenue for this segment is recognized as follows:

Software systems are marketed under information systems agreements as well as service agreements. Perpetual software arrangements are recognized at the time of delivery or under the percentage-of-completion method based on the terms and conditions in the contract. Contracts accounted for under the percentage-of-completion method are generally measured based on the ratio of labor costs incurred to date to total estimated labor costs to be incurred. Changes in estimates to complete and revisions in overall profit estimates on these contracts are charged to earnings in the period in which they are determined. We accrue for contract losses if and when the current estimate of total contract costs exceeds total contract revenue.

Hardware revenues are generally recognized upon delivery. Revenue from multi-year software license agreements is recognized ratably over the term of the agreement. Software implementation fees are recognized as the work is performed or under the percentage-of-completion contract method. Maintenance and support agreements are marketed under annual or multi-year agreements and are recognized ratably over the period covered by the agreements. Remote processing service fees are recognized monthly as the service is performed. Outsourcing service revenues are recognized as the service is performed.

We also offer our products on an application service provider (“ASP”) basis, making available our software functionality on a remote hosting basis from our data centers. The data centers provide system and administrative support as well as hosting services. Revenue on products sold on an ASP basis is recognized on a monthly basis over the term of the contract starting when the hosting services begin.

This segment also engages in multiple-element arrangements, which may contain any combination of software, hardware, implementation or consulting services, or maintenance services. When some elements are delivered prior to others in an arrangement and vendor-specific objective evidence of fair value (“VSOE”) exists for the undelivered elements, revenue for the delivered elements is recognized upon delivery of such items. The segment establishes VSOE for hardware and implementation and consulting services based on the price charged when sold separately, and for maintenance services, based on renewal rates offered to customers. Revenue for the software element is recognized under the residual method only when fair value has been established for all of the undelivered elements in an arrangement. If fair value cannot be established for any undelivered element, all of the arrangement’s revenue is deferred until the delivery of the last element or until the fair value of the undelivered element is determinable.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Supplier Incentives: We generally account for fees for service and other incentives received from our suppliers, relating to the purchase or distribution of inventory, as a reduction to cost of goods sold. We consider these fees to represent product discounts, and as a result, the fees are recorded as a reduction of product cost and recognized through cost of goods sold upon the sale of the related inventory.

Supplier Reserves: We establish reserves against amounts due from our suppliers relating to various price and rebate incentives, including deductions or billings taken against payments otherwise due to them. These reserve estimates are established based on our judgment after carefully considering the status of current outstanding claims, historical experience with the suppliers, the specific incentive programs and any other pertinent information available to us. We evaluate the amounts due from our suppliers on a continual basis and adjust the reserve estimates when appropriate based on changes in factual circumstances. The ultimate outcome of any outstanding claim may be different than our estimate. As of March 31, 2007 and 2006, supplier reserves were \$100 million and \$97 million.

Shipping and Handling Costs: We include all costs to warehouse, pick, pack and deliver inventory to our customers in distribution expenses.

Income Taxes: We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Foreign Currency Translation: Assets and liabilities of international subsidiaries are translated into U.S. dollars at year-end exchange rates, and revenues and expenses are translated at average exchange rates during the year. Cumulative currency translation adjustments are included in accumulated other comprehensive income or losses in the stockholders' equity section of the consolidated balance sheets. Realized gains and losses from currency exchange transactions are recorded in operating expenses in the consolidated statements of operations and were not material to our consolidated results of operations in 2007, 2006 or 2005.

Derivative Financial Instruments: Derivative financial instruments are used principally in the management of our foreign currency and interest rate exposures and are recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized as a charge or credit to earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in accumulated other comprehensive losses and are recognized in the consolidated statement of earnings when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized as a charge or credit to earnings. Derivative instruments not designated as hedges are marked-to-market at the end of each accounting period with the results included in earnings.

Concentrations of Credit Risk: Trade receivables subject us to a concentration of credit risk with customers primarily in our Pharmaceutical Solutions segment. A significant proportion of our revenue growth has been with a limited number of large customers and as a result, our credit concentration has increased. Accordingly, any defaults in payment by or a reduction in purchases from these large customers could have a significant negative impact on our financial condition, results of operations and liquidity. At March 31, 2007, revenues and accounts receivable from our ten largest customers accounted for approximately 51% of consolidated revenues and approximately 48% of accounts receivable. 2007 revenues and March 31, 2007 receivables from our largest customer, Caremark RX, Inc., represented approximately 11% of total consolidated revenues and 12% of accounts receivable. We have also provided financing arrangements to certain of our customers within our Pharmaceutical Solutions segment, some of which are on a revolving basis. At March 31, 2007, these customer financing arrangements totaled approximately \$122 million.

Accounts Receivable Sales: At March 31, 2007, we had a \$700 million revolving receivables sales facility, which was fully available. The program qualifies for sale treatment under Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting For Transfers and Servicing Financial Assets and Extinguishments of Liabilities." Sales are recorded at the estimated fair values of the receivables sold, reflecting discounts for the time

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

value of money based on U.S. commercial paper rates and estimated loss provisions. Discounts are recorded in administrative expenses in the consolidated statements of operations.

Share-Based Payment: Beginning in 2007, we account for all share-based payment transactions using a fair-value based measurement method required by SFAS No. 123(R), "Share-Based Payment." The share-based compensation expense is recognized for the portion of the awards that is ultimately expected to vest on a straight-line basis over the requisite service period for those awards with graded vesting and service conditions. For the awards with performance conditions, we recognize the expense on a straight-line basis, treating each vesting tranche as a separate award.

Prior to the adoption of SFAS No. 123(R), we accounted for our employee stock-based compensation plans using the intrinsic value method under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Under this policy, since the exercise price of stock options we granted was generally set equal to the market price on the date of the grant, we did not record any expense to the income statement related to the grants of stock options, unless certain original grant-date terms were subsequently modified. See Financial Note 19, "Share-Based Payment," for the pro forma effect on net income (loss) and diluted earnings (loss) per common share required under the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," for the years ended March 31, 2006 and 2005.

New Accounting Pronouncements: In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151, "Inventory Costs — an amendment of Accounting Research Bulletin ("ARB") No. 43, Chapter 4." SFAS No. 151 clarifies the accounting guidance included in ARB No. 43, Chapter 4, "Inventory Pricing" related to abnormal amounts of idle facility expense, freight, handling and spoilage costs. SFAS No. 151 became effective for inventory costs incurred during 2007. The adoption of this standard did not have a material effect on our consolidated financial statements.

On April 1, 2006, we adopted SFAS No. 123(R), "Share-Based Payment," which requires the recognition of expense resulting from transactions in which we acquire goods and services by issuing our shares, share options, or other equity instruments. This standard requires a fair-value based measurement method in accounting for share-based payment transactions. The share-based compensation expense is recognized for the portion of the awards that is ultimately expected to vest. This standard replaced SFAS No. 123 and superseded APB Opinion No. 25. Accordingly, the use of the intrinsic value method as provided under APB Opinion No. 25, which was utilized by the Company, was eliminated. We adopted SFAS No. 123(R) using the modified prospective method of transition. See Financial Note 19, "Share-Based Payment," for further details.

In March 2005, the Securities and Exchange Commission ("SEC") staff issued Staff Accounting Bulletin ("SAB") No. 107, "Share-Based Payment", which provides guidance on the interaction between SFAS No. 123(R) and certain SEC rules and regulations, as well as on the valuation of share-based payments. SAB No. 107 did not modify any of the requirements under SFAS No. 123(R). SAB No. 107 provides interpretive guidance related to valuation methods (including assumptions such as expected volatility and expected term), first-time adoption of SFAS No. 123(R) in an interim period, the classification of compensation expense and disclosures subsequent to adoption of SFAS No. 123(R).

Operating income in 2007 and 2006 included \$60 million and \$16 million of share-based compensation expense. 2006 expense is associated with restricted stock whose intrinsic value as of the grant date is being amortized over the remaining requisite service period. We anticipate the impact of SFAS No. 123(R) to continue to impact net income as future awards of share-based compensation are granted and amortized over the requisite service period of four years. Share-based compensation charges are affected by our stock price as well as assumptions regarding a number of complex and subjective variables and the related tax impact. These variables include, but are not limited to, the volatility of our stock price, employee stock option exercise behaviors, timing, level and types of our grants of annual share-based awards, and the attainment of performance goals. As a result, the actual future share-based compensation expense may differ from historical levels of expense.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets — an amendment of APB Opinion No. 29," which eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets that do not culminate an earning process under APB Opinion No. 29, "Accounting for

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Nonmonetary Transactions.” SFAS No. 153 requires that that measurement be based on the recorded amount of the assets relinquished for nonmonetary exchanges that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This standard became effective for nonmonetary asset exchanges in 2007. The adoption of this standard did not have a material impact on our consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140.” SFAS No. 155 clarifies certain issues relating to embedded derivatives and beneficial interests in securitized financial assets, including permitting fair value measurement for any hybrid financial instrument that contains an embedded derivative, eliminating the prohibition on a qualifying special-purpose entity from holding certain derivative instruments, and providing clarification that concentrations of credit risk in the form of subordination are not embedded derivatives. This standard is effective for us for all financial instruments acquired or issued after 2008. We do not believe the adoption of this standard will have a material impact on our consolidated financial statements.

In July 2006, the FASB issued Financial Interpretation (“FIN”) No. 48, “Accounting for Uncertainty in Income Taxes,” which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, “Accounting for Income Taxes.” FIN No. 48 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The amount recognized is measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlements. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. We are required to adopt the provisions of FIN No. 48 in the first quarter of 2008. While we are assessing the impact of FIN No. 48 on our consolidated financial statements, we currently estimate the cumulative effect upon adoption of FIN No. 48 may result in a decrease to shareholders’ equity of up to \$100 million. The estimated impact is subject to revision as we complete the analysis. We will continue to classify interest and penalties to be paid on an underpayment of income taxes as income taxes in our consolidated statements of operations.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements,” which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This standard applies under other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. SFAS No. 157 will become effective for us in 2009. We are currently assessing the impact of SFAS No. 157.

In September 2006, the SEC staff issued SAB No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.” This guidance indicates that the materiality of a misstatement must be evaluated using both the rollover and iron curtain approaches. The iron curtain approach quantifies a misstatement based on the effects of correcting the misstatement existing in the balance sheet at the end of the current year, while the rollover approach quantifies a misstatement based on the amount of the error originating in the current year income statement. SAB No. 108 is effective for our 2007 annual consolidated financial statements. The adoption of SAB No. 108 did not have a material effect on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans,” which requires us to recognize the funded status of our defined benefit plans in the consolidated balance sheets and changes in the funded status in comprehensive income. This standard also requires us to recognize the gains/losses, prior year service costs/credits and transition assets/obligations as a component of other comprehensive income upon adoption, and provide additional annual disclosure. SFAS No. 158 does not affect the computation of benefit expense recognized in our consolidated statements of operations. In addition, SFAS No. 158 requires us to measure plan assets and benefit obligations as of the year-end balance sheet date effective in 2009. We adopted the recognition and disclosure provisions of this standard, as required, prospectively in 2007.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The following table sets forth the incremental effect of applying SFAS No. 158 on individual line items in our consolidated balance sheet at March 31, 2007:

<i>(In millions)</i>	Before Adoption of SFAS No. 158	Adjustments ⁽¹⁾	After Adoption of SFAS No. 158
Other Assets	\$ 1,703	\$ (54)	\$ 1,649
Current Liabilities – Other	2,086	2	2,088
Postretirement Obligations and Other Noncurrent Liabilities	734	7	741
Accumulated Other Comprehensive Income	\$ 94	\$ (63)	\$ 31

(1) The adoption of SFAS No. 158 also impacted the subtotals on the consolidated balance sheet, including Total Assets, Total Current Liabilities and Total Stockholders' Equity.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115." SFAS No. 159 permits us to elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities that are not otherwise required to be measured at fair value, on an instrument-by-instrument basis. If we elect the fair value option, we would be required to recognize changes in fair value in our earnings. This standard also establishes presentation and disclosure requirements designed to improve comparisons between entities that choose different measurement attributed for similar types of assets and liabilities. SFAS No. 159 is effective for 2009 although early adoption is permitted. We are currently assessing the impact of SFAS No. 159 on our consolidated financial statements.

2. Acquisitions and Investments

In 2007, we made the following acquisitions and investment:

- On January 26, 2007, we acquired all of the outstanding shares of Per-Se Technologies, Inc. ("Per-Se") of Alpharetta, Georgia for \$28.00 per share in cash plus the assumption of Per-Se's debt, or approximately \$1.8 billion in aggregate, including cash acquired of \$76 million. Per-Se is a leading provider of financial and administrative healthcare solutions for hospitals, physicians and retail pharmacies. The acquisition was initially funded with cash on hand and through the use of an interim credit facility. In March 2007, we issued \$1 billion of long-term debt, with such net proceeds after offering expenses from the issuance, together with cash on hand, being used to fully repay borrowings outstanding under the interim credit facility (refer to Financial Note 10, "Long-Term Debt and Other Financing").

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed in the acquisition as of March 31, 2007:

<i>(In millions)</i>	
Accounts receivable	\$ 107
Property and equipment	41
Other current and non-current assets	54
Goodwill	1,228
Intangible assets	477
Accounts Payable	(8)
Other current liabilities	(109)
Deferred revenue	(30)
Long-term liabilities	(24)
Net assets acquired, less cash and cash equivalents	\$ 1,736

Approximately \$1,228 million of the preliminary purchase price allocation has been assigned to goodwill. Included in the purchase price allocation are acquired identifiable intangibles of \$408 million representing customer relationships with a weighted-average life of 10 years, developed technology of \$56 million with a

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

weighted-average life of 5 years, and trademark and tradenames of \$13 million with a weighted-average life of 5 years.

In connection with the preliminary purchase price allocation, we have estimated the fair value of the support obligations assumed from Per-Se in connection with the acquisition. The estimated fair value of these obligations was determined utilizing a cost build-up approach. The cost build-up approach determines fair value by estimating the costs relating to fulfilling the obligations plus a normal profit margin. The sum of the costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume these obligations. As a result, in allocating the purchase price, we recorded an adjustment to reduce the carrying value of Per-Se's deferred revenue by \$17 million to \$30 million, which represents our estimate of the fair value of the obligation assumed.

In accordance with accounting standards, certain costs that will be incurred to integrate acquired businesses will be treated as part of the cost of the acquisition whereas other related costs will be expensed. Financial results for Per-Se are primarily included within our Provider Technologies segment since the date of acquisition.

- Our Provider Technologies segment acquired RelayHealth Corporation ("RelayHealth") based in Emeryville, California. RelayHealth is a provider of secure online healthcare communication services linking patients, healthcare professionals, payors and pharmacies. This segment also acquired two other entities, one specializing in patient billing solutions designed to simplify and enhance healthcare providers' financial interactions with their patients as well as a provider of integrated software for electronic health records, medical billing and appointment scheduling for independent physician practices. The total cost of these three entities was \$90 million, which was paid in cash. Goodwill recognized in these transactions amounted to \$63 million.
- Our Medical-Surgical Solutions segment acquired Sterling Medical Services LLC ("Sterling") based in Moorestown, New Jersey. Sterling is a national provider and distributor of disposable medical supplies, health management services and quality management programs to the home care market. This segment also acquired a leading medical supply sourcing agent. The total cost of these two entities was \$95 million, which was paid in cash. Goodwill recognized in these transactions amounted to \$47 million.
- We invested \$36 million in cash and \$45 million in net assets primarily from our Automated Prescription Systems business in Parata Systems, LLC ("Parata"), in exchange for a significant minority interest in Parata. Parata is a manufacturer of pharmacy robotic equipment. In connection with the investment, we abandoned certain assets which resulted in a \$15 million charge to cost of sales and we incurred \$6 million of other expenses related to the transaction which were recorded within operating expenses. We did not recognize any additional gains or losses as a result of this transaction as we believe the fair value of our investment in Parata, as determined by a third-party valuation, approximates the carrying value of consideration contributed to Parata. Our investment in Parata is accounted for under the equity method of accounting within our Pharmaceutical Solutions segment.

In 2006, we made the following acquisitions:

- We acquired all of the issued and outstanding stock of D&K Healthcare Resources, Inc. ("D&K") of St. Louis, Missouri for an aggregate cash purchase price of \$479 million, including the assumption of D&K's debt. D&K is primarily a wholesale distributor of branded and generic pharmaceuticals and over-the-counter health and beauty products to independent and regional pharmacies, primarily in the Midwest. Approximately \$158 million of the purchase price has been assigned to goodwill. Included in the purchase price were acquired identifiable intangibles of \$43 million primarily representing customer lists and not-to-compete covenants which have an estimated weighted-average useful life of nine years. Financial results for D&K are included in our Pharmaceutical Solutions segment.
- We acquired all of the issued and outstanding shares of Medcon, Ltd. ("Medcon"), an Israeli company, for an aggregate purchase price of \$82 million. Medcon provides web-based cardiac image and information management services to healthcare providers. Approximately \$60 million of the purchase price was assigned to goodwill and \$20 million was assigned to intangibles which represent technology assets and customer lists

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

which have an estimated weighted-average useful life of four years. Financial results for Medcon are included in our Provider Technologies segment.

In 2005, we made the following acquisition and investment:

- We invested \$33 million to increase our ownership percentage in Nadro S.A. de C.V. ("Nadro") to approximately 48%. Prior to the additional investment, the Company owned approximately 22% of the outstanding common shares of Nadro. Our investment in Nadro is accounted for under the equity method of accounting within our Pharmaceutical Solutions segment.
- We acquired all of the issued and outstanding shares of Moore Medical Corp. ("MMC"), of New Britain, Connecticut for an aggregate cash purchase price of \$37 million. MMC is an Internet-enabled, multi-channel marketer and distributor of medical-surgical and pharmaceutical products to non-hospital provider settings. Approximately \$19 million of the purchase price was assigned to goodwill. The results of MMC's operations have been included in the consolidated financial statements within our Medical-Surgical Solutions segment since the acquisition date.

During the last three years we also completed a number of other smaller acquisitions and investments within all three of our operating segments. Financial results for our business acquisitions have been included in our consolidated financial statements since their respective acquisition dates. Purchase prices for our business acquisitions have been allocated based on estimated fair values at the date of acquisition and, for certain recent acquisitions, may be subject to change. Goodwill recognized for our business acquisitions is not expected to be deductible for tax purposes. Pro forma results of operations for our business acquisitions have not been presented because the effects were not material to the consolidated financial statements on either an individual or an aggregate basis.

3. Discontinued Operations

Results from discontinued operations were as follows:

(In millions)	Years Ended March 31,		
	2007	2006	2005
Income (loss) from discontinued operations			
Acute Care	\$ (9)	\$ (13)	\$ 21
BioServices	-	2	5
Other	-	-	-
Income taxes	4	4	(10)
Total	<u>\$ (5)</u>	<u>\$ (7)</u>	<u>\$ 16</u>
Gain (loss) on sales of discontinued operations			
Acute Care	\$ (49)	\$ -	\$ -
BioServices	-	22	-
Other	10	-	-
Income taxes	(11)	(9)	-
Total	<u>\$ (50)</u>	<u>\$ 13</u>	<u>\$ -</u>
Discontinued operations, net of taxes			
Acute Care	\$ (66)	\$ (8)	\$ 13
BioServices	-	14	3
Other	11	-	-
Total	<u>\$ (55)</u>	<u>\$ 6</u>	<u>\$ 16</u>

In the second quarter of 2007, we sold our Medical-Surgical Solutions segment's Acute Care supply business to Owens & Minor, Inc. ("OMI") for net cash proceeds of approximately \$160 million. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the financial results of this business are classified as a discontinued operation for all periods presented in the accompanying consolidated financial

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

statements. Such presentation includes the classification of all applicable assets of the disposed business under the caption "Prepaid expenses and other" and all applicable liabilities under the caption "Other" under "Current Liabilities" within our consolidated balance sheets for all periods presented. Revenues associated with the Acute Care business prior to its disposition were \$1,062 million and \$1,025 million for 2006 and 2005 and \$597 million for the first half of 2007.

Financial results for 2007 for this discontinued operation include an after-tax loss of \$66 million, which primarily consists of an after-tax loss of \$61 million for the business' disposition and \$5 million of after-tax losses associated with operations, other asset impairment charges and employee severance costs. The after-tax loss of \$61 million for the business' disposition includes a \$79 million non-tax deductible write-off of goodwill, as further described below.

In connection with this divestiture, we allocated a portion of our Medical-Surgical Solutions segment's goodwill to the Acute Care business as required by SFAS No. 142, "Goodwill and Other Intangible Assets." The allocation was based on the relative fair values of the Acute Care business and the continuing businesses that are being retained by the Company. The fair value of the Acute Care business was determined based on the net cash proceeds resulting from the divestiture and the fair value of the continuing businesses was determined by a third-party valuation. As a result, we allocated \$79 million of the segment's goodwill to the Acute Care business.

Additionally, as part of the divestiture, we entered into a transition services agreement ("TSA") with OMI under which we provided certain services to the Acute Care business during a transition period of approximately six months. Financial results from the TSA, as well as employee severance charges over the transition period, were recorded as part of discontinued operations. The continuing cash flows generated from the TSA were not material to our consolidated financial statements and the TSA was completed as of March 31, 2007.

In 2005, our Acute Care business entered into an agreement with a third party vendor to sell the vendor's proprietary software and services. The terms of the contract required us to prepay certain royalties. During the third quarter of 2006, we ended marketing and sale of the software under the contract. As a result of this decision, we recorded a \$15 million pre-tax charge in the third quarter of 2006 to write-off the remaining balance of the prepaid royalties.

In the second quarter of 2007, we also sold a wholly-owned subsidiary, Pharmaceutical Buyers Inc. ("PBI"), for net cash proceeds of \$10 million. The divestiture resulted in an after-tax gain of \$5 million resulting from the tax basis of the subsidiary exceeding its carrying value. Financial results of this business, which were previously included in our Pharmaceutical Solutions segment, have been presented as a discontinued operation for all periods presented in the accompanying consolidated financial statements. These results were not material to our consolidated financial statements.

The results for discontinued operations for 2007 also include an after-tax gain of \$6 million associated with the collection of a note receivable from a business sold in 2003 and the sale of a small business.

In the second quarter of 2006, we sold our wholly-owned subsidiary, McKesson BioServices Corporation ("BioServices"), for net cash proceeds of \$63 million. The divestiture resulted in an after-tax gain of \$13 million. Financial results for this business, which were previously included in our Pharmaceutical Solutions segment, have been presented as a discontinued operation for all periods presented in the accompanying consolidated financial statements. These results were not material to our consolidated financial statements.

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," financial results for these businesses are classified as discontinued operations for all periods presented.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

4. Restructuring Activities

The following table summarizes the activity related to our restructuring liabilities, excluding customer settlement reserves, for the three years ended March 31, 2007:

<i>(In millions)</i>	Pharmaceutical Solutions		Medical-Surgical Solutions		Provider Technologies		Corporate		Total
	Severance	Exit-Related	Severance	Exit-Related	Severance	Exit-Related	Severance	Exit-Related	
Balance, March 31, 2004	\$ -	\$ 5	\$ 2	\$ 2	\$ -	\$ 2	\$ 11	\$ -	\$ 22
Expenses	-	-	2	-	-	-	-	-	2
Cash expenditures	-	(2)	(3)	(1)	-	(1)	(10)	-	(17)
Balance, March 31, 2005	-	3	1	1	-	1	1	-	7
Expenses	-	1	(1)	-	-	-	-	-	-
Liabilities related to acquisition	10	30	-	-	-	-	-	-	40
Cash expenditures	(4)	(4)	-	(1)	-	(1)	(1)	-	(11)
Balance, March 31, 2006	6	30	-	-	-	-	-	-	36
Expenses	6	(1)	-	-	10	-	-	-	15
Liabilities related to acquisitions	-	(14)	-	-	8	4	-	-	(2)
Cash expenditures	(6)	(8)	-	-	(5)	-	-	-	(19)
Balance, March 31, 2007	\$ 6	\$ 7	\$ -	\$ -	\$ 13	\$ 4	\$ -	\$ -	\$ 30

During 2007, we recorded pre-tax restructuring expense of \$15 million, which primarily reflected employee severance costs within our Pharmaceutical Solutions and Provider Technologies segments. There were no material restructuring expenses for 2006 and 2005. Accrued restructuring liabilities are included in other liabilities in the consolidated balance sheet.

In connection with the D&K acquisition, in 2006 we recorded \$10 million of liabilities relating to employee severance costs and \$28 million for facility exit and contract termination costs. Approximately 260 employees, consisting primarily of distribution, general and administrative staff, were terminated as part of this restructuring plan. To date, \$9 million of severance and \$9 million of exit costs have been paid. In connection with the Company's investment in Parata, \$13 million of contract termination costs that were initially estimated as part of the D&K acquisition were extinguished and, as a result, the Company decreased goodwill and its restructuring liability in 2007. At March 31, 2007, the remaining severance liability for this plan was \$1 million, and the remaining facility exit liability was \$5 million, which is anticipated to be paid at various dates through 2015. Also, in connection with the Per-Se acquisition in 2007, we recorded an \$8 million employee severance liability and a \$4 million facility exit liability.

5. Other Income, Net

<i>(In millions)</i>	Years Ended March 31,		
	2007	2006	2005
Interest income	\$ 103	\$ 105	\$ 41
Equity in earnings, net	23	20	15
Other, net	6	14	12
Total	\$ 132	\$ 139	\$ 68

6. Earnings (Loss) Per Share

Basic earnings per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings per share except that it reflects the potential dilution that could occur if dilutive securities or other obligations to issue common stock were exercised or converted into common stock. For 2005, because of our

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

reported net loss, potentially dilutive securities were excluded from the per share computations due to their antidilutive effect.

The computations for basic and diluted earnings (loss) per share from continuing and discontinued operations are as follows:

<i>(In millions, except per share amounts)</i>	Years Ended March 31,		
	2007	2006	2005
Income (loss) from continuing operations	\$ 968	\$ 745	\$ (173)
Interest expense on convertible junior subordinated debentures, net of tax	-	1	-
Income (loss) from continuing operations – diluted	968	746	(173)
Discontinued operations	(5)	(7)	16
Discontinued operations – gain (loss) on sales, net	(50)	13	-
Net income (loss) – diluted	<u>\$ 913</u>	<u>\$ 752</u>	<u>\$ (157)</u>
Weighted average common shares outstanding:			
Basic	298	306	294
Effect of dilutive securities:			
Options to purchase common stock	6	9	-
Convertible junior subordinated debentures	-	1	-
Restricted stock	1	-	-
Diluted	<u>305</u>	<u>316</u>	<u>294</u>
Earnings (loss) per common share: ⁽¹⁾			
Basic			
Continuing operations	\$ 3.25	\$ 2.44	\$ (0.59)
Discontinued operations	(0.02)	(0.02)	0.06
Discontinued operations – gain (loss) on sales, net	(0.17)	0.04	-
Total	<u>\$ 3.06</u>	<u>\$ 2.46</u>	<u>\$ (0.53)</u>
Diluted			
Continuing operations	\$ 3.17	\$ 2.36	\$ (0.59)
Discontinued operations	(0.02)	(0.02)	0.06
Discontinued operations – gain (loss) on sales, net	(0.16)	0.04	-
Total	<u>\$ 2.99</u>	<u>\$ 2.38</u>	<u>\$ (0.53)</u>

(1) Certain computations may reflect rounding adjustments.

Approximately 11 million stock options were excluded from the computations of diluted net earnings per share in 2007 and 2006 as their exercise price was higher than the Company's average stock price.

7. Receivables, net

<i>(In millions)</i>	March 31,	
	2007	2006
Customer accounts	\$ 5,753	\$ 5,684
Other	953	694
Total	6,706	6,378
Allowances	(140)	(131)
Net	<u>\$ 6,566</u>	<u>\$ 6,247</u>

The allowances are primarily for uncollectible accounts and sales returns.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

8. Property, Plant and Equipment, net

(In millions)	March 31,	
	2007	2006
Land	\$ 43	\$ 38
Building, machinery and equipment	1,463	1,465
Total property, plant and equipment	1,506	1,503
Accumulated depreciation	(822)	(840)
Property, plant and equipment, net	\$ 684	\$ 663

9. Goodwill and Intangible Assets, net

Changes in the carrying amount of goodwill were as follows:

(In millions)	Pharmaceutical Solutions	Medical-Surgical Solutions	Provider Technologies	Total
Balance, March 31, 2005	\$ 300	\$ 665	\$ 395	\$ 1,360
Goodwill acquired, net of purchase price adjustments	195	7	71	273
Translation adjustments	-	-	4	4
Balance, March 31, 2006	495	672	470	1,637
Goodwill acquired, net of purchase price adjustments	178	56	1,088	1,322
Translation adjustments	1	2	13	16
Balance, March 31, 2007	\$ 674	\$ 730	\$ 1,571	\$ 2,975

Information regarding intangible assets is as follows:

(In millions)	March 31,	
	2007	2006
Customer lists	\$ 593	\$ 139
Technology	161	83
Trademarks and other	56	40
Gross intangibles	810	262
Accumulated amortization	(197)	(146)
Intangible assets, net	\$ 613	\$ 116

Amortization expense of intangible assets was \$53 million, \$28 million and \$24 million for 2007, 2006 and 2005. The weighted average remaining amortization period for customer lists, technology, trademarks and other intangible assets at March 31, 2007 was: 9 years, 4 years and 5 years. Estimated future annual amortization expense of these assets is as follows: \$98 million, \$89 million, \$76 million, \$69 million and \$64 million for 2008 through 2012, and \$200 million thereafter. At March 31, 2007, there were \$17 million of intangible assets not subject to amortization.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

10. Long-Term Debt and Other Financing

(In millions)	March 31,	
	2007	2006
8.95% Series B Senior Notes due February, 2007	\$ -	\$ 20
9.13% Series C Senior Notes due February, 2010	215	215
6.40% Notes due March, 2008	150	150
7.75% Notes due February, 2012	399	399
5.25% Notes due March, 2013	498	-
5.70% Notes due March, 2017	499	-
7.65% Debentures due March, 2027	175	175
ESOP related debt (see Financial Note 13)	14	25
Other	8	7
Total debt	1,958	991
Less current portion	155	26
Total long-term debt	\$ 1,803	\$ 965

Convertible Junior Subordinated Debentures

In February 1997, we issued 5% Convertible Junior Subordinated Debentures (the "Debentures") in an aggregate principal amount of \$206 million. The Debentures were purchased by McKesson Financing Trust (the "Trust") with proceeds from its issuance of four million shares of preferred securities to the public and 123,720 common securities to us. The Debentures represented the sole assets of the Trust and bore interest at an annual rate of 5%, payable quarterly. These preferred securities of the Trust were convertible into our common stock at the holder's option.

Holders of the preferred securities were entitled to cumulative cash distributions at an annual rate of 5% of the liquidation amount of \$50 per security. Each preferred security was convertible at the rate of 1.3418 shares of our common stock, subject to adjustment in certain circumstances. The preferred securities were to be redeemed upon repayment of the Debentures and were callable by us on or after March 4, 2000, in whole or in part, initially at 103.5% of the liquidation preference per share, and thereafter at prices declining at 0.5% per annum to 100% of the liquidation preference on and after March 4, 2007 plus, in each case, accumulated, accrued and unpaid distributions, if any, to the redemption date.

During the first quarter of 2006, we called for the redemption of the Debentures, which resulted in the exchange of the preferred securities for 5 million shares of our newly issued common stock.

Other Financing

In January 2007, we entered into a \$1.8 billion interim credit facility. The interim credit facility was a single-draw 364-day unsecured facility which had terms substantially similar to those contained in the Company's existing revolving credit facility. We utilized \$1.0 billion of this facility to fund a portion of our purchase of Per-Se.

On March 5, 2007, we issued \$500 million of 5.25% notes due 2013 and \$500 million of 5.70% notes due 2017. The notes are unsecured and interest is paid semi-annually on March 1 and September 1. The notes are redeemable at any time, in whole or in part, at our option. In addition, upon occurrence of both a change of control and a ratings downgrade of the notes to non-investment-grade levels, we are required to make an offer to redeem the notes at a price equal to 101% of the principal amount plus accrued interest. We utilized net proceeds after offering expenses of \$990 million from the issuance of the notes, together with cash on hand, to repay all amounts outstanding under the interim credit facility plus accrued interest.

We have a \$1.3 billion five-year, senior unsecured revolving credit facility that expires in September 2009. Borrowings under this credit facility bear interest based upon either a Prime rate or the London Interbank Offering Rate ("LIBOR"). We also have a \$700 million accounts receivable sales facility, which was renewed in June 2006, with terms substantially similar to those previously in place. This renewed facility is currently scheduled to expire in June 2007. No amounts were outstanding under any of these facilities at March 31, 2007 and 2006.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

In 2007, 2006 and 2005, we sold customer lease portfolio receivables for cash proceeds of \$5 million, \$60 million and \$59 million.

The employee stock ownership program ("ESOP") debt bears interest at rates ranging from 8.6% fixed rate to approximately 93% of the LIBOR and is due in semi-annual and annual installments through 2009.

Our various borrowing facilities and certain long-term debt instruments are subject to covenants. Our principal debt covenant is our debt to capital ratio, which cannot exceed 56.5%. If we exceed this ratio, repayment of debt outstanding under the revolving credit facility and \$215 million of term debt could be accelerated. At March 31, 2007, this ratio was 23.8% and we were in compliance with all other covenants.

11. Financial Instruments and Hedging Activities

At March 31, 2007 and 2006, the carrying amounts of cash and cash equivalents, restricted cash, marketable securities, receivables, drafts and accounts payable, and other liabilities approximated their estimated fair values because of the short maturity of these financial instruments. The carrying amounts and estimated fair values of our long-term debt were \$1,958 million and \$2,036 million at March 31, 2007 and \$991 million and \$1,082 million at March 31, 2006. The estimated fair value of our long-term debt was determined based on quoted market prices and may not be representative of actual values that could have been realized or that will be realized in the future.

In the normal course of business, we are exposed to interest rate changes and foreign currency fluctuations. We limit these risks through the use of derivatives such as interest rate swaps and forward contracts. In accordance with our policy, derivatives are only used for hedging purposes. We do not use derivatives for trading or speculative purposes.

12. Lease Obligations

We lease facilities and equipment under both capital and operating leases. Net assets held under capital leases included in property, plant and equipment were \$2 million and \$3 million at March 31, 2007 and 2006. Rental expense under operating leases was \$117 million, \$106 million and \$106 million in 2007, 2006 and 2005. We recognize rent expense on a straight-line basis over the term of the lease, taking into account, when applicable, lessor incentives for tenant improvements, periods where no rent payment is required and escalations in rent payments over the term of the lease. Deferred rent is recognized for the difference between the rent expense recognized on a straight-line basis and the payments made per the terms of the lease. Most real property leases contain renewal options and provisions requiring us to pay property taxes and operating expenses in excess of base period amounts.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

At March 31, 2007, future minimum lease payments and sublease rental income for years ending March 31 are:

<i>(In millions)</i>	Non-cancelable Operating Leases	Non-cancelable Sublease Rentals	Capital Leases
2008	\$ 98	\$ 3	\$ 1
2009	82	1	1
2010	69	1	-
2011	57	-	-
2012	46	-	-
Thereafter	108	2	-
Total minimum lease payments	<u>\$ 460</u>	<u>\$ 7</u>	<u>2</u>
Less amounts representing interest			-
Present value of minimum lease payments			<u>\$ 2</u>

13. Pension Benefits

We maintain a number of qualified and nonqualified defined benefit pension plans and defined contribution plans for eligible employees.

As discussed in Financial Note 1, we adopted the recognition and disclosure provisions of SFAS No. 158, as required, prospectively in 2007.

Defined Pension Benefit Plans

Eligible U.S. employees who were employed by the Company prior to December 31, 1996 are covered under the Company-sponsored defined benefit retirement plan. In 1997, we amended this plan to freeze all plan benefits based on each employee's plan compensation and creditable service accrued to that date. The Company has made no annual contributions since this plan was frozen. The benefits for this defined benefit retirement plan are based primarily on age of employees at date of retirement, years of service and employees' pay during the five years prior to retirement. We also have defined benefit pension plans for eligible Canadian and United Kingdom employees as well as nonqualified supplemental defined benefit plans for certain U.S. executives, which are non-funded. We also assumed a frozen qualified defined benefit plan through our acquisition of Per-Se in 2007. The measurement date for all of our pension plans is December 31.

The net periodic expense for our pension plans is as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2007	2006	2005
Service cost—benefits earned during the year	\$ 7	\$ 6	\$ 6
Interest cost on projected benefit obligation	27	26	26
Expected return on assets	(33)	(32)	(30)
Amortization of unrecognized actuarial loss, prior service costs and net transitional obligation	12	9	9
Immediate recognition of pension cost	-	-	7
Settlement charges and other ⁽¹⁾	4	-	12
Net periodic pension expense	<u>\$ 17</u>	<u>\$ 9</u>	<u>\$ 30</u>

(1) In April 2004, we made several lump sum cash payments totaling \$42 million from an unfunded U.S. pension plan. In accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," \$12 million in settlement charges associated with these payments was expensed in 2005.

The projected unit credit method is utilized for measuring net periodic pension expense over the employees' service life for the U.S. pension plans. Unrecognized actuarial losses exceeding 10% of the greater of the projected

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

benefit obligation and the market value of assets are amortized straight-line over the average remaining future service periods.

Information regarding the changes in benefit obligations and plan assets for our pension plans is as follows:

<i>(In millions)</i>	March 31,	
	2007	2006
Change in benefit obligations		
Benefit obligation at beginning of year	\$ 485	\$ 468
Service cost	7	6
Interest cost	27	26
Actuarial losses	19	21
Benefit payments	(29)	(33)
Benefit obligations assumed through acquisition	37	-
Foreign exchange impact and other	6	(3)
Benefit obligation at end of year	<u>\$ 552</u>	<u>\$ 485</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 412	\$ 397
Actual return on plan assets	48	33
Employer and participant contributions	24	20
Benefits paid	(29)	(33)
Plan assets acquired through acquisition	28	-
Foreign exchange impact and other	1	(5)
Fair value of plan assets at end of year	<u>\$ 484</u>	<u>\$ 412</u>

The accumulated benefit obligations for our pension plans were \$525 million at March 31, 2007 and \$462 million at March 31, 2006.

A reconciliation of the pension plans' funded status to the net asset recognized is as follows:

<i>(In millions)</i>	Years Ended March 31,	
	2007	2006
Funded status		
Funded status at December 31	\$ (68)	\$ (73)
Unrecognized net actuarial loss	NA	122
Unrecognized net transitional obligations	NA	2
Unrecognized prior service cost	NA	14
Employer contributions subsequent to measurement date	3	6
Amounts recognized in the consolidated balance sheets at end of year	<u>\$ (65)</u>	<u>\$ 71</u>

NA -- Not applicable in 2007 due to the application of SFAS No. 158.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Amounts recognized in the consolidated balance sheet at March 31, are as follows:

<i>(In millions)</i>	March 31,	
	2007	2006
Noncurrent assets	\$ 53	\$ 136
Current liabilities	(17)	(12)
Noncurrent liabilities	(101)	(87)
Funded status at end of year	<u>\$ (65)</u>	
Accumulated other comprehensive loss, net of tax of \$12		22
Net amounts recognized at end of year		<u>\$ 59</u>

The components of the amount recognized in accumulated other comprehensive income are as follows:

	March 31, 2007
Net actuarial loss	\$ 118
Net prior service cost	12
Net transitional obligation	2
Total	<u>\$ 132</u>

The amounts in accumulated other comprehensive income expected to be amortized into 2008 net periodic pension expense are:

	2008 (estimate)
Net actuarial loss	\$ 7
Net prior service cost	2
Total	<u>\$ 9</u>

Prior to the adoption of SFAS No. 158, additional minimum liabilities were established to increase accrued benefit cost for our plans, totaling \$35 million and \$48 million at March 31, 2007 and 2006, which were partially offset by intangible assets of \$12 million and \$14 million. The additional minimum liabilities were charged to other comprehensive income included in the consolidated stockholders' equity, net of tax, before the SFAS No. 158 adjustments were recorded. See Financial Note 1, "Significant Accounting Policies," for the incremental effect of applying SFAS No. 158.

Projected benefit obligations relating to our unfunded U.S. plans were \$92 million and \$87 million at March 31, 2007 and 2006. Pension costs are funded based on the recommendations of independent actuaries. We expect contributions for our pension plans in 2008 to be approximately \$30 million.

Expected benefit payments for our pension plans are as follows:

<i>(In millions)</i>	
2008	\$ 35
2009	30
2010	30
2011	29
2012	35
2013 – 2017	<u>226</u>

Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Weighted average asset allocations of the investment portfolio for our pension plans at December 31 and target allocations are as follows:

<i>(In millions)</i>	Target Allocation	Percentage of Fair Value of Total Plan Assets	
		2007	2006
Assets Category			
U.S. equity securities	45%	44%	44%
International equity securities	15%	16%	17%
Fixed income	32%	29%	30%
Other	8%	11%	9%
Total	100%	100%	100%

We develop our expected long-term rate of return assumption based on the historical experience of our portfolio and the review of projected returns by asset class on broad, publicly traded equity and fixed-income indices. Our target asset allocation was determined based on the risk tolerance characteristics of the plan and, at times, may be adjusted to achieve our overall investment objective.

Weighted-average assumptions used to estimate the net periodic pension expense and the actuarial present value of benefit obligations were as follows:

	2007	2006	2005
Net periodic expense			
Discount rates	5.35%	5.75%	6.00%
Rate of increase in compensation	3.83	4.00	4.00
Expected long-term rate of return on plan assets	7.47	8.23	8.23
Benefit obligation			
Discount rates	5.70%	5.56%	5.75%
Rate of increase in compensation	3.97	3.97	4.00
Expected long-term rate of return on plan assets	8.09	8.11	8.23

Other Defined Benefit Plans

Under various U.S. bargaining unit labor contracts, we make payments into multi-employer pension plans established for union employees. We are liable for a proportionate part of the plans' unfunded vested benefits liabilities upon our withdrawal from the plan, however information regarding the relative position of each employer with respect to the actuarial present value of accumulated benefits and net assets available for benefits is not available. Contributions to the plans and amounts accrued were not material for the years ended March 31, 2007, 2006 and 2005.

Defined Contribution Plans

We have a contributory profit sharing investment plan ("PSIP") for U.S. employees not covered by collective bargaining arrangements. Eligible employees may contribute up to 20% of their compensation to an individual retirement savings account. Effective April 1, 2005, the Company makes matching contributions in an amount equal to 100% of the employee's first 3% of pay deferred, and 50% of the employee's deferral for the next 2% of pay deferred. The Company provides for the PSIP contributions primarily with its common shares through its leveraged ESOP or cash payments.

The ESOP has purchased an aggregate of 24 million shares of the Company's common stock since its inception. These purchases were financed by 10 to 20 year loans from or guaranteed by us. The ESOP's outstanding borrowings are reported as long-term debt of the Company and the related receivables from the ESOP are shown as a reduction of stockholders' equity. The loans are repaid by the ESOP from interest earnings on cash balances and common dividends on shares not yet allocated to participants, common dividends on certain allocated shares and

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Company cash contributions. The ESOP loan maturities and rates are identical to the terms of related Company borrowings. Stock is made available from the ESOP based on debt service payments on ESOP borrowings.

Contribution expense for the PSIP in 2007, 2006 and 2005 was primarily ESOP related. After-tax ESOP expense and other contribution expense, including interest expense on ESOP debt, was \$8 million, \$7 million and \$9 million in 2007, 2006 and 2005. Approximately 1 million shares of common stock were allocated to plan participants in each of the years 2007, 2006 and 2005. Through March 31, 2007, 23 million common shares have been allocated to plan participants, resulting in a balance of 1 million common shares in the ESOP, which have not yet been allocated to plan participants.

14. Postretirement Benefits

We maintain a number of postretirement benefits, primarily consisting of healthcare and life insurance (“welfare”) benefits, for certain eligible U.S. employees. Eligible employees consist of those who retired before March 31, 1999 and those who retire after March 31, 1999, but were an active employee as of that date, after meeting other age-related criteria. We also provide postretirement benefits for certain U.S. executives. The measurement date for our postretirement welfare plan is December 31.

As discussed in Financial Note 1, “Significant Accounting Policies”, we adopted the recognition and disclosure provisions of SFAS No. 158, as required, prospectively in 2007.

The net periodic expense for our postretirement welfare benefits is as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2007	2006	2005
Service cost—benefits earned during the year	\$ 2	\$ 2	\$ 2
Interest cost on projected benefit obligation	11	11	11
Amortization of unrecognized actuarial loss and prior service costs	16	20	22
Net periodic postretirement expense	\$ 29	\$ 33	\$ 35

Information regarding the changes in benefit obligations for our postretirement welfare plans is as follows:

<i>(In millions)</i>	Years Ended March 31,	
	2007	2006
Change in benefit obligations		
Benefit obligation at beginning of year	\$ 213	\$ 206
Service cost	2	2
Interest cost	11	11
Actuarial loss (gain)	(26)	14
Benefit payments	(17)	(20)
Benefit obligation at end of year	\$ 183	\$ 213

Amounts recognized in the consolidated balance sheet at March 31, are as follows:

<i>(In millions)</i>	Years Ended March 31,	
	2007	2006
Funded status		
Funded status at end of year	\$ (183)	\$ (213)
Unrecognized net actuarial loss	NA	34
Unrecognized prior service cost	NA	(1)
Liabilities recognized in the consolidated balance sheet (including current portion of \$16 million and \$20 million)	\$ (183)	\$ (180)

NA – Not applicable in 2007 due to the application of SFAS No. 158.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The components of the amount recognized in accumulated other comprehensive income are as follows:

	March 31, 2007
Net actuarial gain	\$ 9
Net prior service credit	1
Total	\$ 10

The amount in accumulated other comprehensive income expected to be amortized into 2008 net periodic postretirement expense is approximately \$5 million representing the net actuarial loss.

Other postretirement benefits are funded as claims are paid. Expected benefit payments for our postretirement welfare benefit plans, net of expected Medicare subsidy receipts of \$21 million, are as follows:

<i>(In millions)</i>	
2008	\$ 17
2009	17
2010	16
2011	16
2012	16
2013 – 2017	73

Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service.

Weighted-average assumptions used to estimate postretirement welfare benefit expenses and the actuarial present value of benefit obligations were as follows:

	2007	2006	2005
Net periodic expense			
Discount rates	5.55%	5.75%	6.00%
Benefit obligation			
Discount rates	5.78%	5.55%	5.75%

Actuarial gain or loss for the postretirement welfare benefit plan is amortized to income over a three-year period. The assumed healthcare cost trends used in measuring the accumulated postretirement benefit obligation were 12% and 13% for prescription drugs, 9% and 10% for medical and 7% and 5% for dental in 2007 and 2006. The healthcare cost trend rate assumption has a significant effect on the amounts reported. For 2007, 2006 and 2005, a one-percentage-point increase and a one-percentage-point decrease in the assumed healthcare cost trend rate would impact total service and interest cost components by approximately \$1 million and the postretirement benefit obligation by approximately \$12 million to \$15 million.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

15. Income Taxes

The provision (benefit) for income taxes related to continuing operations consists of the following:

<i>(In millions)</i>	Years Ended March 31,		
	2007	2006	2005
Current			
Federal	\$ 71	\$ (14)	\$ 225
State and local	69	19	(7)
Foreign	22	16	18
Total current	162	21	236
Deferred			
Federal	204	361	(277)
State and local	(18)	38	(53)
Foreign	(19)	6	1
Total deferred	167	405	(329)
Income tax provision (benefit)	\$ 329	\$ 426	\$ (93)

In the second quarter of 2007, we recorded a credit to current income tax expense of \$83 million which primarily pertains to our receipt of a private letter ruling from the U.S. Internal Revenue Service holding that our payment of approximately \$960 million to settle our Securities Litigation Consolidated Action is fully tax-deductible. We previously established tax reserves to reflect the lack of certainty regarding the tax deductibility of settlement amounts paid in the Consolidated Action and related litigation.

Also, in 2007, we recorded \$24 million in income tax benefits arising primarily from settlements and adjustments with various taxing authorities and research and development investment tax credits from our Canadian operations.

In March 2006, we made a \$960 million payment into an escrow account relating to the Securities Litigation as described in more detail in Financial Note 17, "Other Commitments and Contingent Liabilities." This payment was deducted in our 2006 income tax returns and as a result, our current tax expense decreased and our deferred tax expense increased in 2006 primarily reflecting the utilization of the deferred tax assets associated with the Securities Litigation. In 2006, we recorded a \$14 million income tax expense which primarily relates to a basis adjustment in an investment and adjustments with various taxing authorities.

In 2005, we recorded an income tax benefit of \$390 million for the Securities Litigation which is described in more detail in Financial Note 17. We believed the settlement of the consolidated securities class action and the ultimate resolution of the lawsuits brought independently by other shareholders would be tax deductible. However, the tax attributes of the litigation were complex and the Company expected challenges from the taxing authorities, and accordingly such deductions would not be finalized until the lawsuits were concluded and an examination of the Company's tax returns was completed. Accordingly, as of March 31, 2005, we provided tax reserves for future resolution of these uncertain tax matters.

In 2005, we recorded a \$10 million income tax benefit arising primarily from settlements and adjustments with various taxing authorities and a \$3 million income tax benefit primarily due to a reduction of a valuation allowance related to state income tax net operating loss carryforwards. We believed that the income tax benefit from a portion of these state net operating loss carryforwards would be realized.

Our income tax expense, deferred tax assets and liabilities reflect management's best assessment of estimated future taxes to be paid. We are subject to income taxes in both the U.S. and numerous foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax provision.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The reconciliation between the Company's effective tax rate on income from continuing operations and the statutory tax rate is as follows:

(In millions)	Years Ended March 31,		
	2007	2006	2005
Income tax provision (benefit) at federal statutory rate	\$ 454	\$ 410	\$ (93)
State and local income taxes net of federal tax benefit	34	34	(35)
Foreign tax rate differential	(109)	(74)	(72)
Securities Litigation reserve	(83)	3	85
Nondeductible/nontaxable items	3	1	6
Tax settlements	44	30	8
Other—net	(14)	22	8
Income tax provision (benefit)	\$ 329	\$ 426	\$ (93)

Foreign pre-tax earnings were \$310 million, \$244 million and \$235 million in 2007, 2006 and 2005. At March 31, 2007, undistributed earnings of our foreign operations totaling \$1,096 million were considered to be permanently reinvested. No deferred tax liability has been recognized for the remittance of such earnings to the U.S. since it is our intention to utilize those earnings in the foreign operations as well as to fund certain research and development activities for an indefinite period of time, or to repatriate such earnings when it is tax efficient to do so. The determination of the amount of deferred taxes on these earnings is not practicable since the computation would depend on a number of factors that cannot be known until a decision to repatriate the earnings is made.

Deferred tax balances consisted of the following:

(In millions)	March 31,	
	2007	2006
Assets		
Receivable allowances	\$ 55	\$ 48
Deferred revenue	215	290
Compensation and benefit-related accruals	231	189
Securities Litigation	15	16
Loss and credit carryforwards	512	273
Other	228	227
Subtotal	1,256	1,043
Less: valuation allowance	(12)	(3)
Total assets	\$ 1,244	\$ 1,040
Liabilities		
Basis differences for inventory valuation and other assets	\$ (1,097)	\$ (950)
Basis difference for fixed assets and systems development costs	(161)	(156)
Intangibles	(160)	-
Other	(106)	(113)
Total liabilities	(1,524)	(1,219)
Net deferred tax liability	\$ (280)	\$ (179)
Current net deferred tax liability	\$ (614)	\$ (385)
Long term net deferred tax asset	334	206
Net deferred tax liability	\$ (280)	\$ (179)

We have income tax net operating loss carryforwards related to our international operations of approximately \$86 million which have an indefinite life.

We have federal and state income tax net operating loss carryforwards of \$499 million and \$1,567 million which will expire at various dates from 2008 through 2027. We believe that it is more likely than not that the benefit from certain state net operating loss carryforwards will now be realized. In recognition of this risk, we have provided a valuation allowance of \$12 million on the deferred tax assets relating to these state net operating loss carryforwards.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

We also have domestic income tax credit carryforwards of \$190 million, which are primarily alternative minimum tax credit carryforwards that have an indefinite life and foreign income tax credit carryforwards of \$10 million, which are Canadian research and development credit carryforwards that expire between 2012 and 2027.

In 2005, we have reversed a portion of the valuation allowance related to these state net operating loss carryforwards, of which \$10 million of the tax benefit, net of impairment, was credited to equity.

16. Financial Guarantees and Warranties*Financial Guarantees*

We have agreements with certain of our customers' financial institutions under which we have guaranteed the repurchase of inventory (primarily for our Canadian business) at a discount in the event these customers are unable to meet certain obligations to those financial institutions. Among other requirements, these inventories must be in resalable condition. We have also guaranteed loans and credit facilities for some customers; and we are a secured lender for substantially all of these guarantees. Customer guarantees range from one to seven years and were primarily provided to facilitate financing for certain strategic customers. At March 31, 2007, the amounts of inventory repurchase guarantees and other customer guarantees were \$96 million and \$4 million of which a nominal amount had been accrued.

In 2004, a Pharmaceutical Solutions customer filed for bankruptcy. In 2005, we converted a \$40 million credit facility guarantee in favor of this customer to a note receivable due from this customer. This secured note bore interest and was repayable in 2007. In conjunction with this modification, an inventory repurchase guarantee in favor of this customer for approximately \$12 million was also terminated. In the second quarter of 2007, the term of the note was amended, and the note is now repayable in 2009. The amount due under the note receivable from this customer was approximately \$25 million at March 31, 2007.

At March 31, 2007, we had commitments of \$2 million of cash contributions to our equity-held investments, for which no amounts had been accrued.

The expirations of the above noted financial guarantees and commitments are as follows: \$20 million, \$31 million, nil, \$1 million and nil from 2008 through 2012, and \$50 million thereafter.

In addition, our banks and insurance companies have issued \$99 million of standby letters of credit and surety bonds on our behalf in order to meet the security requirements for statutory licenses and permits, court and fiduciary obligations, and our workers' compensation and automotive liability programs.

Our software license agreements generally include certain provisions for indemnifying customers against liabilities if our software products infringe on a third party's intellectual property rights. To date, we have not incurred any material costs as a result of such indemnification agreements and have not accrued any liabilities related to such obligations.

In conjunction with certain transactions, primarily divestitures, we may provide routine indemnification agreements (such as retention of previously existing environmental, tax and employee liabilities) whose terms vary in duration and often are not explicitly defined. Where appropriate, obligations for such indemnifications are recorded as liabilities. Because the amounts of these indemnification obligations often are not explicitly stated, the overall maximum amount of these commitments cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of divestiture, we have historically not made significant payments as a result of these indemnification provisions.

Warranties

In the normal course of business, we provide certain warranties and indemnification protection for our products and services. For example, we provide warranties that the pharmaceutical and medical-surgical products we distribute are in compliance with the Food, Drug and Cosmetic Act and other applicable laws and regulations. We

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

have received the same warranties from our suppliers, which customarily are the manufacturers of the products. In addition, we have indemnity obligations to our customers for these products, which have also been provided to us from our suppliers, either through express agreement or by operation of law.

We also provide warranties regarding the performance of software and automation products we sell. Our liability under these warranties is to bring the product into compliance with previously agreed upon specifications. For software products, this may result in additional project costs, which are reflected in our estimates used for the percentage-of-completion method of accounting for software installation services within these contracts. In addition, most of our customers who purchase our software and automation products also purchase annual maintenance agreements. Revenue from these maintenance agreements is recognized on a straight-line basis over the contract period and the cost of servicing product warranties is charged to expense when claims become estimable. Accrued warranty costs were not material to the consolidated balance sheets.

17. Other Commitments and Contingent Liabilities

1. Accounting Litigation

Following the announcements by McKesson in April, May and July of 1999 that McKesson had determined that certain software sales transactions in its Information Solutions segment, formerly HBO & Company and now known as McKesson Information Solutions LLC, were improperly recorded as revenue and reversed, as of March 31, 2007, ninety-two lawsuits had been filed against McKesson, HBOC, certain of McKesson's or HBOC's current or former officers or directors, and other defendants, including Bear Stearns & Co. Inc. ("Bear Stearns") and Arthur Andersen LLP ("Andersen"). On January 12, 2005, we announced that we reached an agreement to settle the previously-reported action in the Northern District of California captioned: *In re McKesson HBOC, Inc. Securities Litigation*, (No. C-99-20743 RMW) (the "Consolidated Action"). In general, we agreed to pay the settlement class a total of \$960 million in cash. During the third quarter of 2005, we recorded a \$1,200 million pre-tax (\$810 million after-tax) charge with respect to the Company's Securities Litigation. The charge consisted of \$960 million for the Consolidated Action and \$240 million for other Securities Litigation proceedings.

During 2006, we settled many of the other Securities Litigation proceedings and paid \$243 million pursuant to those settlements. Based on the payments made in the Consolidated Action and the other Securities Litigation proceedings, settlements reached in certain of the other Securities Litigation proceedings and our assessment of the remaining cases, the estimated reserves were increased by \$52 million and \$1 million in pre-tax charges during the first and third quarters of 2006 and decreased by an \$8 million pre-tax credit during the fourth quarter of 2006, for a total net pre-tax charge of \$45 million for 2006. On February 24, 2006, the court gave final approval to the settlement of the Consolidated Action, and as a result, we paid approximately \$960 million into an escrow account established by the lead plaintiff in connection with the settlement.

During 2007, the Securities Litigation accrual decreased \$31 million primarily reflecting a net pre-tax credit of \$6 million representing a settlement and a reassessment of another case in the second quarter of 2007, and \$25 million of cash payments made in connection with these settlements.

Based on the payments made in the Consolidated Action and payments made to settle other previously reported Securities Litigation proceedings, and based on our assessment of the remaining cases, the estimated Securities Litigation accruals as of March 31, 2007 and 2006, were \$983 million and \$1,014 million. We believe this accrual is adequate to address our remaining potential exposure with respect to all of the Securities Litigation matters. However, in view of the number and uncertainties of the timing and outcome of this type of litigation, and the substantial amounts involved, it is possible that the ultimate costs of these matters could impact our earnings, either negatively or positively, in the quarter of their resolution. We do not believe that the resolution of these matters will have a material adverse effect on our results of operations, liquidity or financial position taken as a whole.

Although most of the Securities Litigation cases have been resolved as reported here and previously, certain matters remain pending as more fully described below.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Federal Actions

On February 24, 2006, the Honorable Ronald M. Whyte signed a Final Judgment and Order of Dismissal (the “Judgment”), in which the Court gave its final approval to the settlement of the Consolidated Action and dismissed on the merits and with prejudice all claims asserted in the Consolidated Action against the Company, HBOC, and Defendants’ Released Persons (as that term is defined in the Judgment). On March 23, 2006, Defendant Bear Stearns filed an appeal of the Judgment to the United States Court of Appeals for the Ninth Circuit. The appeal by Bear Stearns challenges certain provisions of the settlement that restrict Bear Stearns’ ability to bring certain claims in the future against the Company, HBOC and certain other persons released in the settlement. The appeal is fully briefed, and the parties are awaiting notice of a hearing date for argument of the appeal. We do not believe that the outcome of the Bear Stearns appeal will affect our right and ability to enjoy the other benefits of the settlement, including the releases of the Company, HBOC and the Defendants’ Released Persons (as that term is defined in the Stipulation of Settlement) by the members of the settlement class.

On March 30, 2006, we paid approximately \$960 million into an escrow account established in connection with the settlement of the Consolidated Action in full satisfaction of our payment obligations under the Judgment and the Stipulation of Settlement. Any distribution of the funds deposited into the escrow account to class members is subject to prior court approval. We show amounts paid into an escrow account for future distribution to class members of our Securities Litigation settlement as restricted cash, and the corresponding liability in current liabilities under the caption “Securities Litigation.” The liability will be discharged at such time as the settlement is declared effective by the Court.

On September 1, 2006, Judge Whyte granted final approval to our previously reported agreement to settle all claims brought under the Employee Retirement Income Security Act of 1974 (“ERISA”) on behalf of former participants in the McKesson Profit-Sharing Investment Plan for \$19 million, *In re McKesson HBOC, Inc. ERISA Litigation*, (No. C-00-20030 RMW). The period for appeal from that approval order has expired and the settlement and dismissal of this action are final.

The previously-reported action captioned *Cater v. McKesson Corporation et al.*, (No. C-00-20327-RMW) is the only remaining individual action pending in federal court. There has been no discovery or other activity in that action since its original filing.

On August 11, 2005, the Company and HBOC filed a complaint against Andersen and former Andersen partner Robert A. Putnam (“Putnam”) in San Francisco Superior Court captioned *McKesson Corporation et al. v Andersen et al.*, (No. 05-443987), which Putnam subsequently removed to the United States District Court for the Northern District of California. Upon removal, the case was assigned to Judge Whyte and given N.D. Cal. Case No. 05-04020 RMW. In its complaint, as amended on March 28, 2006, McKesson asserts claims against Andersen for negligent misrepresentation, breach of contract, equitable indemnity or declaratory relief, and contribution, and HBOC asserts claims against Andersen for breach of contract, professional negligence, equitable indemnity or declaratory relief, and contribution. McKesson and HBOC also assert claims against Putnam for equitable indemnity or declaratory relief, and contribution, in connection with Andersen’s audits and reviews of HBOC’s financial results during 1996-1999. The complaint seeks unspecified damages, various forms of equitable and declaratory relief, costs of suit and attorneys’ fees. On March 16, 2006, Andersen filed an action against McKesson and HBOC in federal court in San Jose captioned *Andersen v. McKesson Corporation et al.*, (No. C-06-02035-JW). In its complaint, Andersen asserts claims against McKesson and HBOC for fraud, negligent misrepresentation, breach of contract, breach of the covenant of good faith and fair dealing, equitable indemnity and declaratory relief, in connection with Andersen’s prior audits and reviews of HBOC’s financial results. The complaint seeks unspecified damages, including punitive damages in an unspecified amount, declaratory relief, and costs of suit. Both we and Andersen filed, and on September 22, 2006, argued, motions to dismiss one another’s complaints in these actions, and the parties are awaiting Judge Whyte’s rulings on those motions.

State Actions

Twenty-four actions were filed in various state courts in California, Colorado, Delaware, Georgia, Louisiana and Pennsylvania (the “State Actions”). Like the Consolidated Action, the State Actions generally allege misconduct by McKesson or HBOC (and others) in connection with the events leading to McKesson’s decision to restate HBOC’s financial statements. All of these actions were settled or otherwise resolved as of March 31, 2006,

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

except for the following individual actions, all of which were pending in Georgia: *Holcombe T. Green and HTG Corp. v. McKesson, Inc. et al.*, (Georgia Superior Court, Fulton County, Case No. 2002-CV-48407); *Hall Family Investments, L.P. v. McKesson, Inc. et al.* (Georgia Superior Court, Fulton County, Case No. 2002-CV-48612); and *James Gilbert v. McKesson Corporation, et al.*, (Georgia State Court, Fulton County, Case No. 02VS032502C). The allegations in these actions are substantially similar to those in the Consolidated Action. The Company and HBOC have answered the complaints in each of these actions, generally denying the allegations and any liability to plaintiffs. The *Green* and *Hall Family Investments, L.P.* actions were voluntarily dismissed by plaintiffs on April 26, 2006 in the Georgia Superior Court and were re-filed in Georgia State Court, Fulton County *Holcombe T. Green and HTG Corp. v. McKesson Corporation, et al.* (Georgia State Court, Fulton County, Case No. 06-VS-096767-D) and *Hall Family Investments, L.P. v. McKesson Corporation, et al.* (Georgia State Court, Fulton County, Case No. 06-VS-096763-F). Plaintiffs there allege claims of fraud and deceit; additionally, plaintiff Green seeks indemnification in connection with the ERISA Action and for other unspecified losses. In April of 2007, we filed motions to disqualify the *Green* and *Hall Family Investments, L.P.* damages experts and for summary judgment, and plaintiffs in those cases filed counter motions for summary judgment, all of which motions are scheduled to be argued on June 5 and 6, 2007. No trial date has been set in those cases.

The *Gilbert* action which asserted claims of fraud, deceit and negligent misrepresentation claims against HBOC and McKesson was settled in January of 2007.

In December of 2005, Bear Stearns filed a complaint captioned, *Bear Stearns & Co., Inc v. McKesson Corporation*, (Case No. 604304/5), against the Company in the trial court for the State and County of New York. Bear Stearns alleges that the Company's entry into the settlement of the Consolidated Action, without providing a full release for Bear Stearns in that settlement, was a breach of the engagement letter under which Bear Stearns advised the Company in connection with its acquisition of HBOC. Bear Stearns' complaint seeks monetary and other relief, including an order enjoining the Company from performing under the settlement agreement. This same objection was made by Bear Stearns in its opposition to preliminary and final approvals of the class action settlement. The objection was rejected by Judge Whyte as grounds for denying approval of the settlement in his September 28, 2005 order granting preliminary approval and in his February 24, 2006 order granting final approval. Discovery is continuing in that action. No trial date has been set.

II. Other Litigation and Claims

In addition to commitments and obligations in the ordinary course of business, we are subject to various claims, other pending and potential legal actions for product liability and other damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of our business. These include:

Product Liability Litigation and Other Claims

The Company is a defendant in approximately 570 cases alleging that the plaintiffs were injured by Vioxx, an anti-inflammatory drug manufactured by Merck & Company ("Merck"). The cases typically assert causes of action for strict liability, negligence, breach of warranty and false advertising for improper design, testing, manufacturing, and warnings relating to the manufacture and distribution of Vioxx. None of the cases involving the Company is scheduled for trial. The Company has tendered each of these cases to Merck and has reached an agreement with Merck to defend and indemnify the Company.

The Company is a defendant in approximately 18 cases alleging that the plaintiffs were injured because they took the drugs known as fen-phen, the term commonly used to describe the weight-loss combination of fenfluramine or dexfenfluramine with phentermine. The Company has been named as a defendant along with several other defendants in 41 cases and has accepted the tender of one of its customers named as a defendant in one additional case. The cases are pending in state courts in California and Mississippi and in state and federal courts in Florida and New York, and typically assert causes of action for strict liability, negligence, breach of warranty, false advertising and unfair business practices for improper design, testing, manufacturing and warnings relating to the distribution and/or prescription of fen-phen. The Company has tendered each of these cases to its suppliers and has reached an agreement with its major supplier to defend and indemnify the Company and its customers.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

We, through our former McKesson Chemical Company division, are named in approximately 375 cases involving the alleged distribution of asbestos. These cases typically involve either single or multiple plaintiffs claiming personal injuries and unspecified compensatory and punitive damages as a result of exposure to asbestos-containing materials. Pursuant to an indemnification agreement signed at the time of the 1986 sale of McKesson Chemical Company to what is now called Univar USA Inc. ("Univar"), we have tendered each of these actions to Univar. Univar has raised questions concerning the extent of its obligations under the indemnification agreement, and while Univar continues to defend us in many of these cases, it has been rejecting our tenders of new cases since February 2005. We believe Univar remains obligated for all tendered cases under the terms of the indemnification agreement; however we continue to incur defense costs in connection with these more recently-served actions. We also believe that a portion of the claims against us will be covered by insurance, and we are pursuing the available coverage.

On May 3, 2004, judgment was entered against us and one of our employees in the action *Roby v. McKesson HBOC, Inc. et al.* (Superior Court for Yolo County, California, Case No. CV01-573). Former employee Charlene Roby ("Roby") brought claims for wrongful termination, disability discrimination and disability-based harassment against McKesson and a claim for disability-based harassment against her former supervisor. The jury awarded Roby compensatory damages against McKesson and against her supervisor in the total amount of \$4 million, and punitive damages in the amount of \$15 million against McKesson. Following post-trial motions, the trial court reduced the amount of compensatory damages against McKesson to \$3 million; the punitive damages awarded against both defendants and the compensatory damages awarded against the individual employee defendant were not reduced. We filed a Notice of Appeal, seeking reduction or reversal of the compensatory and punitive damage awards and the award of attorneys' fees. On December 26, 2006, the Court of Appeal for the Third Appellate District issued its decision reversing the verdict for harassment against Roby's supervisor, reducing the compensatory damages from \$3 million to \$1 million and punitive damages from \$15 million to \$2 million. Following the rejection of Roby's petition for rehearing before the Court of Appeals, plaintiff petitioned for review by the California Supreme Court, which was granted on April 18, 2007. We will answer the petition and will seek an order from the Supreme Court upholding the Court of Appeals' decision.

On February 5, 2004, a class action complaint was filed in the United States District Court for the Eastern District of Missouri against our after-acquired subsidiary, D&K and D&K's former Chief Executive, Operating and Financial Officers alleging breach of fiduciary duties and violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5, *Gary Dutton v. D&K Healthcare Resources, Inc. et al.* (Case No. 4-04-CV-00147-SNL). The Commercial Workers Union, Local 655, AFL-CIO, Food Employees Joint Pension Plan ("Lead Plaintiff") in that action sought to represent a class consisting of purchasers of D&K's publicly traded common stock during the period from August 10, 2000 to September 16, 2002 and sought compensatory damages, costs, fees and expenses of suit. The action generally alleges that D&K failed to timely disclose that its sales of branded drugs during most of the class period were heavily dependent on its ability to purchase drugs from vendor Bristol-Myers Squibb Company ("BMS") at discounted prices and in volume, and that defendants knew, but did not disclose, that the effect of losing its attractive purchase terms from BMS would be a material reduction in sales volume and profit. On February 23, 2007, we entered into a settlement agreement which resolves all claims by the D&K shareholders against all defendants. We are obligated under the terms of the agreement to pay \$19 million, but anticipate recouping \$5 million of that amount from D&K's insurer. The settlement has received the preliminary approval of the trial court, but remains subject to various conditions, including final approval by the trial court, presently scheduled to be argued on June 5, 2007.

On June 2, 2005, a civil class action complaint was filed against us in the United States District Court, District of Massachusetts, *New England Carpenters Health Benefits Fund et al., v. First DataBank, Inc. and McKesson Corporation*, (Civil Action No. 05-11148), alleging that commencing in late 2001 and early 2002, we and co-defendant First DataBank ("FDB") agreed to take actions to increase the "Average Wholesale Price" ("AWP") of certain branded drugs, which alleged conduct resulted in higher drug reimbursement payments by plaintiffs and others similarly situated. The complaint purports to state claims based on the federal Racketeer Influenced and Corrupt Organizations Act ("RICO"), violations of the California Business and Professions Code and California Consumers Legal Remedies Act, and for negligent misrepresentation. The plaintiffs seek injunctive relief, as well as compensatory and punitive damages, attorneys' fees and costs. On October 4, 2006, the plaintiffs and co-defendant FDB announced a proposed settlement, as to FDB only, which calls for downward adjustments to certain FDB published AWP's, a prohibition against all future changes to such AWP's and a prescribed timetable for the cessation of all publication of AWP's by FDB. In November of 2006, the Court granted preliminary approval of the

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

settlement, although with certain restrictions as to the type of class that could be utilized to effect the settlement. The Court has not yet approved a form of class notice, set a schedule for objections to the settlement or set a date for hearing on final approval. On May 22, 2007, the court is scheduled to hear plaintiffs' petition for class certification and our objections to certification. We have answered the complaint, and the matter is in discovery. No trial date has been set.

On July 14, 2006, an action was filed in the United States District Court for the Eastern District of New York against McKesson, two McKesson employees, four other drug wholesalers and sixteen drug manufacturers, *RxUSA v. Alcon Laboratories et al.*, (Case No. 06-CV-3447-MJT). Plaintiff alleges that we, along with various other defendants, unlawfully engaged in monopolization and attempted monopolization of the sale and distribution of pharmaceutical products in violation of the federal antitrust laws, as well as in violation of New York State's Donnelly Act. We are also alleged to have violated the Sarbanes-Oxley Act of 2002; and our employees are alleged to have violated the Donnelly Act, the Sarbanes-Oxley Act and Sections 1962 (c) and (d) of the civil RICO statute. Plaintiff alleges generally that defendants have individually, and in concert with one another, taken actions to create and maintain a monopoly and to exclude secondary wholesalers, such as the plaintiff, from the wholesale pharmaceutical industry. The complaint seeks monetary damages including treble damages, attorneys' fees and injunctive relief. All defendants have filed motions to dismiss all claims. No date for hearing on those motions has been set. Discovery has commenced. No trial date has been set.

Between 1976 and 1986, our former Chemical Company division operated a facility in Santa Fe Springs, California. We have been actively remediating the contamination at this site since 1994. Angeles Chemical Company ("Angeles") conducted similar chemical repackaging activities at its property adjacent to the Company's site between 1976 and 2000. In late 2001, Angeles filed an action against McKesson *Angeles Chemical Company v. McKesson Corporation et al.*, (United States District Court for the Central District of California Case No. 01-10532-TJH) claiming that its contamination has migrated to Angeles' property. The causes of action in the current complaint purport to state claims based on the Comprehensive Environmental Response, Compensation and Liability Act of 1980 and the Resource Conservation and Recovery Act, as well as for negligence, trespass, equitable indemnity, defamation, nuisance, interference with prospective advantage and for violations of the California Business and Professions Code. Angeles seeks injunctive relief, as well as compensatory and punitive damages, attorneys' fees and costs. We have responded to the complaint and the matter is in discovery. No trial date has been set. We have responded to the complaint and substantial discovery was conducted during 2007 by all parties. The trial court recently extended the discovery cut-off date in this matter to June 11, 2007, and a pretrial conference is scheduled for October 15, 2007, at which time a trial date is expected to be set in 2008.

The health care industry is highly regulated, and government agencies continue to increase their scrutiny over certain practices affecting government programs. From time to time, the Company receives subpoenas or requests for information from various government agencies. The Company generally responds to such subpoenas and requests in a cooperative, thorough and timely manner. These responses sometimes require considerable time and effort, and can result in considerable costs being incurred by the Company. Examples of such requests and subpoenas include the following: (1) we have received a subpoena from the U.S. Attorney's Office ("USAO") in Massachusetts seeking documents relating to the Company's business relationship with a long-term care pharmacy organization and we are in the process of responding to this subpoena; (2) we have responded to a request from the Federal Trade Commission for certain documents as part of a non-public investigation to determine whether the Company may have engaged in anti-competitive practices with other wholesale pharmaceutical distributors in order to limit competition for provider customers seeking distribution services; (3) we have received a Civil Investigative Demand ("CID") from the Attorney General's Office of the State of Tennessee apparently in connection with an investigation into possible violations of the Tennessee Medicaid False Claims Act in connection with repackaged pharmaceuticals and we are in the process of responding to this subpoena; (4) we have responded to a subpoena from the office of the Attorney General of the State of New York ("NYAG") requesting documents and other information concerning our participation in the secondary or "alternative source" market for pharmaceutical products; (5) we have also received a subpoena from the NYAG relating to the pricing on certain drugs, including the First DataBank average wholesale and average benchmark prices for such drugs, and have responded to this subpoena and otherwise cooperated with the NYAG; and (6) we have been advised of an investigation by the USAO for the Northern District of Mississippi into whether it will intervene in a civil *qui tam* action filed by an unknown private relator against the Company and other defendants, and we are informed that the action purports to allege violations of the anti-kickback statute in connection with the provision of Medicare claims billing services to an affiliate of a multi-facility nursing home customer. We have not seen the civil complaint that is the subject of that

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

investigation, but we have provided documents to the USAO and are fully cooperating with the investigation. Because these investigations are not concluded, we cannot predict the outcome or impact, if any, of these proceedings on our business.

As previously reported, on January 26, 2007, we acquired Per-Se, at which time Per-Se became a wholly owned subsidiary of McKesson. Prior to its acquisition Per-Se had publicly disclosed two SEC investigations which have not to our knowledge been closed. Those investigations are the following: (1) In March of 2005, the SEC issued a subpoena to Per-Se pursuant to a formal order of investigation which we believe relates to allegations of wrongdoing made in 2003 by a former Per-Se employee. Those allegations were the subject of a prior investigation by the Per-Se Audit Committee and an outside accounting firm. Per-Se has produced documents and provided testimony to the SEC. There has been no recent activity in this matter and the SEC has taken no action against Per-Se to date. (2) In December of 2004, the SEC issued a formal order of investigation relating to accounting matters at NDCHealth Corporation ("NDCHealth"), a then public company which was acquired by Per-Se in January of 2006, prior to our acquisition of Per-Se. In March of 2005, NDCHealth restated its financial statements for the fiscal years ended May 28, 2004, May 30, 2003 and May 31, 2002, and for the fiscal quarters ended August 22, 2004 and August 29, 2005, to correct errors relating to certain accounting matters. NDCHealth produced documents to the SEC and fully cooperated with the SEC in its investigation. The SEC has taken testimony from a number of current and former NDCHealth employees. There has been no recent activity in this matter and the SEC has taken no action against NDCHealth or its successor to date.

Environmental Matters

Primarily as a result of the operation of our former chemical businesses, which were fully divested by 1987, we are involved in various matters pursuant to environmental laws and regulations. We have received claims and demands from governmental agencies relating to investigative and remedial actions purportedly required to address environmental conditions alleged to exist at seven sites where we, or entities acquired by us, formerly conducted operations and we, by administrative order or otherwise, have agreed to take certain actions at those sites, including soil and groundwater remediation. In addition, we are one of multiple recipients of a New Jersey Department of Environmental Protection Agency directive and a separate United States Environmental Protection Agency directive relating to potential natural resources damages ("NRD") associated with one of these seven sites. Although the Company's potential allocation under either directive cannot be determined at this time, we have agreed to participate with a potentially responsible party ("PRP") group in the funding of an NRD assessment, the costs of which are reflected in the aggregate estimates set forth below.

Based on a determination by our environmental staff, in consultation with outside environmental specialists and counsel, the current estimate of reasonably possible remediation costs for these five sites is \$11 million, net of approximately \$2 million that third parties have agreed to pay in settlement or we expect, based either on agreements or nonrefundable contributions which are ongoing, to be contributed by third parties. The \$11 million is expected to be paid out between April 2007 and March of 2027. Our estimated liability for these environmental matters has been accrued in the accompanying consolidated balance sheets.

In addition, we have been designated as a PRP under the Comprehensive Environmental Compensation and Liability Act of 1980 (as amended, the "Superfund" law or its state law equivalent) for environmental assessment and cleanup costs as the result of our alleged disposal of hazardous substances at 16 sites. With respect to each of these sites, numerous other PRPs have similarly been designated and, while the current state of the law potentially imposes joint and several liability upon PRPs, as a practical matter costs of these sites are typically shared with other PRPs. Our estimated liability at those 16 sites is approximately \$2 million. The aggregate settlements and costs paid by us in Superfund matters to date have not been significant. The accompanying consolidated balance sheets include this environmental liability.

The potential costs to us related to environmental matters are uncertain due to such factors as: the unknown magnitude of possible pollution and cleanup costs; the complexity and evolving nature of governmental laws and regulations and their interpretations, the timing, varying costs and effectiveness of alternative cleanup technologies; the determination of our liability in proportion to that of other PRPs; and the extent, if any, to which such costs are recoverable from insurance or other parties.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

While it is not possible to determine with certainty the ultimate outcome or the duration of any of the litigation or governmental proceedings discussed under this section II, "Other Litigation and Claims", we believe based on current knowledge and the advice of our counsel that such litigation and proceedings will not have a material adverse effect on our financial position, results of operations or cash flows.

18. Stockholders' Equity

Each share of the Company's outstanding common stock is permitted one vote on proposals presented to stockholders and is entitled to share equally in any dividends declared by the Company's Board of Directors (the "Board").

The Board approved share repurchase plans in October 2003, August 2005, December 2005 and January 2006 which permitted the Company to repurchase up to a total of \$1 billion (\$250 million per plan) of the Company's common stock. Under these plans, we repurchased 19 million shares for \$958 million during 2006 and made no repurchases in 2005. As of March 31, 2006, less than \$1 million remained available for future repurchases under the January 2006 plan and all of these other plans were completed.

In April and July 2006, the Board approved two new share repurchase plans which permitted the Company to repurchase up to an additional \$1 billion (\$500 million per plan) of the Company's common stock. During 2007, we repurchased a total of 20 million shares for \$1.0 billion. As a result of these repurchases, we effectively completed all of the 2007 share repurchase plans.

On April 25, 2007, the Board approved an additional share repurchase plan of up to \$1.0 billion of the Company's common stock. Repurchased shares are used to support our stock-based employee compensation plans and for other general corporate purposes. Stock repurchases may be made from time to time in open market or private transactions.

In 2005, our stockholders approved a new stock plan (the "2005 Stock Plan") which allows for the grant of options, restricted stock, restricted stock units, stock appreciation rights, performance shares and other share-based awards to employees, officers and directors of the Company. The 2005 Stock Plan replaced several other plans (the "Legacy Plans") and the remaining 11 million shares available for issuance under the Legacy Plans were cancelled, although awards under those plans remain outstanding. Under the 2005 Stock Plan, 13 million new shares were authorized for issuance, and as of March 31, 2007, 5 million shares remain available for grant. As a result of acquisitions, we currently have 8 other option plans under which no further awards have been made since the date of acquisition.

In 2005, the Board renewed the Company's common stock rights plan. Under the renewal of the plan, effective October 22, 2004, the Board declared a dividend distribution of one right (a "Right") for each outstanding share of Company common stock. The common stock rights plan was structured to have certain antitakeover effects that would cause substantial dilution to the ownership interest of a person or group that attempted to acquire the Company on terms not approved by the Board. On January 4, 2007, the Board amended the common stock rights plan to provide for the termination of the rights plan effective January 31, 2007.

The Company also has an employee stock purchase plan ("ESPP") under which 11 million shares have been authorized for issuance. Eligible employees may purchase a limited number of shares of the Company's common stock at a discount of up to 15% of the market value at certain plan-defined dates. In 2007, 2006 and 2005, 1 million, 1 million and 2 million shares were issued under the ESPP. At March 31, 2007, 1 million shares were available for issuance under the ESPP.

As previously discussed, during the first quarter of 2006, we called for the redemption of the Debentures, which resulted in the exchange of the preferred securities for 5 million shares of our newly issued common stock.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)****19. Share-Based Payment**

We provide share-based compensation for our employees, officers and non-employee directors, including stock options, an employee stock purchase plan, restricted stock ("RS"), restricted stock units ("RSUs") and performance-based restricted stock units ("PcRSUs") (collectively, "share-based awards.") On April 1, 2006, we adopted SFAS No. 123(R), as discussed in Financial Note 1, "Significant Accounting Policies." Accordingly, we began to recognize compensation expense for the fair value of share-based awards granted, modified, repurchased or cancelled from April 1, 2006 forward. Compensation expense is recognized for the portion of the awards that is ultimately expected to vest. For the unvested portion of awards issued prior to and outstanding as of April 1, 2006, the expense is recognized at the grant-date fair value as the remaining requisite service is rendered. We recognize compensation expense on a straight-line basis over the requisite service period for those awards with graded vesting and service conditions. For the awards with performance conditions, we recognize the expense on a straight-line basis, treating each vesting tranche as a separate award.

We adopted SFAS No. 123(R) using the modified prospective method and therefore have not restated prior period financial statements. Prior to adopting SFAS No. 123(R), we accounted for our employee share-based compensation plans using the intrinsic value method under APB Opinion No. 25. This standard generally did not require recognition of compensation expense for the majority of our share-based awards except for RS and RSUs. In addition, as required under APB Opinion No. 25, we previously recognized forfeitures as they occurred.

We develop an estimate of the number of share-based awards which will ultimately vest primarily based on historical experiences. The estimated forfeiture rate established upon grant is re-assessed periodically throughout the requisite service period. Such estimates are revised if they differ materially from actual forfeitures. As required, the forfeiture estimates will be adjusted to reflect actual forfeitures when an award vests. The actual forfeitures in the future reporting periods could be materially higher or lower than our current estimates. The weighted-average forfeiture rate is approximately 7%. As a result, the future share-based compensation expense may differ from the Company's historical amounts.

The compensation expense recognized under SFAS No. 123(R) has been classified in the income statement or capitalized on the balance sheet in the same manner as cash compensation paid to our employees. There was no material share-based compensation expense capitalized as part of the balance sheet at March 31, 2007. In addition, SFAS No. 123(R) requires that the benefits of realized tax deductions in excess of previously recognized tax benefits on compensation expense be reported as a financing cash flow rather than an operating cash flow, as was done under APB Opinion No. 25. For the year ended March 31, 2007, \$70 million of excess tax benefits were recognized.

In conjunction with the adoption of SFAS No. 123(R), in the first quarter of 2007, we elected the "short-cut" method for calculating the beginning balance of the additional paid-in capital pool ("APIC pool") related to the tax effects of share-based compensation. Under this method, a simplified calculation is applied in establishing the beginning APIC pool balance as well as determining the future impact on the APIC pool and our consolidated statements of cash flows relating to the tax effects of share-based compensation. The election of this accounting policy did not have a material impact on our consolidated financial statements.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Impact on Net Income

The components of share-based compensation expense and the related tax benefit are shown in the following table:

<i>(In millions, except per share amounts)</i>	Years Ended March 31,		
	2007	2006	2005
RSU and RS	\$ 22	\$ 16	\$ 10
2007 PeRSU	24	-	-
Stock options	7	-	4
Employee stock purchase plan	7	-	-
Share-based compensation expense	60	16	14
Tax benefit for share-based compensation expense	(20)	(6)	(5)
Share-based compensation expense, net of tax ⁽¹⁾	<u>\$ 40</u>	<u>\$ 10</u>	<u>\$ 9</u>
Impact of share-based compensation:			
Earnings per share			
Diluted	\$ 0.13	\$ 0.03	\$ 0.03
Basic	0.13	0.03	0.03

(1) No material share-based compensation expense was included in Discontinued Operations.

I. SFAS No. 123 Pro Forma Information for 2006 and 2005

As described in Financial Note 1, prior to April 1, 2006 we accounted for our employee share-based compensation plans using the intrinsic value method under APB Opinion No. 25. Had compensation expense for our employee share-based compensation been recognized based on the fair value method, consistent with the provisions of SFAS No. 123, net income and earnings per share would have been as follows:

<i>(In millions, except per share amounts)</i>	Years Ended March 31,	
	2006	2005
Net income (loss), as reported	\$ 751	\$ (157)
Compensation expense, net of tax:		
APB Opinion No. 25 expense included in net income	10	9
SFAS No. 123 expense	(66)	(60)
Pro forma net income (loss)	<u>\$ 695</u>	<u>\$ (208)</u>
Earnings (loss) per common share:		
Diluted – as reported	\$ 2.38	\$ (0.53)
Diluted – pro forma	2.20	(0.71)
Basic – as reported	2.46	(0.53)
Basic – pro forma	2.27	(0.71)

In 2006 and 2005, we granted 5 million and 6 million employee stock options, substantially all of which vested on or before March 31, 2006 and 2005. The shortened vesting schedules at grant were approved by the Compensation Committee of the Company's Board of Directors ("Compensation Committee") for employee retention purposes and in anticipation of the requirements of SFAS No. 123(R). Prior to 2005, stock options typically vested over a four year period. Accordingly, SFAS No. 123 compensation expense for the 2006 and 2005 employee stock options that were fully vested prior to April 1, 2006 is reflected on the pro forma results above, but not recognized in our earnings after the adoption of SFAS No. 123(R).

II. Stock Plans

The 2005 Plan provides our employees, officers and non-employee directors share-based long-term incentives. The 2005 Plan permits the granting of stock options, RS, RSUs, PeRSUs and other share-based awards. Under the 2005 Plan, 13 million shares were authorized for issuance, and as of March 31, 2007, 5 million shares remain available for future grant. The 2005 Plan replaced the following three plans in advance of their expirations: 1999 Stock Option and Restricted Stock Plan, the 1997 Directors' Equity Compensation and Deferral Plan and the 1998

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Canadian Incentive Plan (collectively, the “Legacy Plans”). The aggregate remaining 11 million authorized shares under the Legacy Plans were cancelled, although awards under those plans remain outstanding. The 2005 Plan is now the Company’s only plan for providing share-based incentive compensation to employees and non-employee directors of the Company and its affiliates.

In anticipation of the requirements of SFAS No. 123(R), the Compensation Committee reviewed our long-term compensation program for key employees across the Company. As a result, beginning in 2006, reliance on options was reduced with more long-term incentive value delivered by grants of PeRSUs and performance-based cash compensation.

III. Stock Options

Stock options are granted at not less than fair market value and those options granted under the 2005 Plan have a contractual term of seven years. Prior to 2005, stock options typically vested over a four-year period and had a contractual term of ten years. As noted above, in 2006 and 2005, we provided shortened vesting schedules to 2006 and 2005 employee stock options upon grant. Options granted in 2007 have a seven-year contractual life and generally follow the four-year vesting schedule. We expect option grants in 2008 and future years will have the same contractual life and vesting schedule as 2007 option grants. Stock options under the Legacy Plans, which are substantially vested, generally have a ten-year contractual life.

Compensation expense for stock options is recognized on a straight-line basis over the requisite service period and is based on the grant-date fair value for the portion of the awards that is ultimately expected to vest. We continue to use the Black-Scholes model to estimate the fair value of our stock options. Once the fair value of an employee stock option value is determined, current accounting practices do not permit it to be changed, even if the estimates used are different from actual. The option pricing model requires the use of various estimates and assumptions, as follows:

- Expected stock price volatility is based on a combination of historical volatility of our common stock and implied market volatility. We believe that this market-based input provides a better estimate of our future stock price movements and is consistent with emerging employee stock option valuation considerations. Our expected stock price volatility assumption continues to reflect a constant dividend yield during the expected term of the option.
- Expected dividend yield is based on historical experience and investors’ current expectations.
- The risk-free interest rate for periods within the expected life of the option is based on the constant maturity U.S. Treasury rate in effect at the time of grant.
- The expected life of the options is determined based on historical option exercise behavior data, and also reflects the impact of changes in contractual life of current option grants compared to our historical grants.

Weighted-average assumptions used to estimate the fair value of employee stock options were as follows:

	Years Ended March 31,		
	2007	2006	2005
Expected stock price volatility	27%	36%	29%
Expected dividend yield	0.5%	0.5%	0.7%
Risk-free interest rate	5%	4%	4%
Expected life (in years)	5	6	7

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The following is a summary of options outstanding at March 31, 2007:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Options Outstanding At Year End (In millions)	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Options Exercisable at Year End (In millions)	Weighted-Average Exercise Price
\$ 13.67 - \$ 27.35	1	3	\$ 21.35	1	\$ 21.17
\$ 27.36 - \$ 41.02	19	4	33.45	19	33.46
\$ 41.03 - \$ 54.70	6	5	46.43	4	46.01
\$ 54.71 - \$ 68.37	1	1	58.16	1	58.16
\$ 68.38 - \$ 82.04	8	2	72.87	8	72.87
\$ 82.05 - \$ 95.72	1	1	90.74	1	90.74
	36	4	46.32	34	46.41

The following table summarizes stock option activity during 2007, 2006 and 2005:

(In millions, except per share data)	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ⁽²⁾
Outstanding, March 31, 2004	65	\$ 40.77		
Granted	6	34.67		
Exercised	(7)	25.42		
Cancelled and forfeited	(5)	59.57		
Outstanding, March 31, 2005	59	40.37		
Granted	5	44.93		
Exercised	(17)	31.15		
Cancelled and forfeited	(1)	69.40		
Outstanding, March 31, 2006	46	43.38		
Granted	1	48.13		
Exercised	(11)	33.71		
Outstanding, March 31, 2007	36	46.32	4	\$ 601
Vested and expected to vest ⁽¹⁾ , March 31, 2007	35	46.36	4	597
Exercisable, March 31, 2007	34	46.41	4	579

(1) The number of options expected to vest takes into account an estimate of expected forfeitures.

(2) The aggregate intrinsic value is calculated as the difference between the period-end market price of the Company's common stock and the option exercise price, times the number of "in-the-money" option shares.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The following table provides data related to all stock option activity:

(In millions)	Years Ended March 31,		
	2007	2006	2005
Weighted-average grant date fair value per stock option	\$ 15.43	\$ 18.26	\$ 12.79
Aggregate intrinsic value on exercise	\$ 204	\$ 278	\$ 64
Cash received upon exercise	\$ 354	\$ 538	\$ 179
Tax benefits realized related to exercise	\$ 74	\$ 106	\$ 23
Total fair value of shares vested	\$ 4	\$ 89	\$ 83
Total compensation cost, net of estimated forfeitures, related to unvested stock options not yet recognized, pre-tax	\$ 18	NA	NA
Weighted-average period in years over which stock option compensation cost is expected to be recognized	2	NA	NA

NA – Not applicable as stock option compensation cost was not generally recognized under APB Opinion No. 25 in 2006 and 2005.

IV. RS, RSUs and PeRSUs

RS and RSUs, which entitle the holder to receive, at the end of a vesting term, a specified number of shares of the Company's common stock, are accounted for at fair value at the date of grant. The fair value of RS and RSUs under our stock plans is determined by the product of the number of shares that are expected to vest and the grant date market price of the Company's common stock. The Compensation Committee determines the vesting terms at the time of grant. These awards generally vest in two to five years. The fair value of RS and RSUs with graded vesting and service conditions is expensed on a straight-line basis over the requisite service period. RS contains certain restrictions on transferability and may not be transferred until such restrictions lapse.

Each non-employee director currently receives 2,500 RSUs annually, which vest immediately, and which are expensed upon grant. However, issuance of any shares is delayed until the director is no longer performing services for the Company. At March 31, 2007, 40,000 RSUs for our directors are vested, but shares have not been issued.

PeRSUs are RSUs for which the number of RSUs awarded may be conditional upon the attainment of one or more performance objectives over a specified period. Vesting of such awards ranges from one to three-year periods following the end of the performance period and may follow the graded or cliff method of vesting.

PeRSUs are accounted for as variable awards until the performance goals are reached and the grant date is established. The fair value of PeRSUs is determined by the product of the number of shares eligible to be awarded and expected to vest, and the market price of the Company's common stock, commencing at the inception of the requisite service period. During the performance period, the PeRSUs are re-valued using the market price and the performance modifier at the end of a reporting period. At the end of the performance period, if the goals are attained, the award is classified as a RSU and is accounted for on that basis. The fair value of PeRSUs is expensed on a straight-line basis, treating each vesting tranche as a separate award, over the requisite service period of four years. For RS and RSUs with service conditions, we have elected to amortize the expense on a straight-line basis.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The following table summarizes RS and RSU activity during 2007, 2006 and 2005:

<i>(In millions, except per share data)</i>	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested, March 31, 2004	-	\$ 32.91
Granted	1	34.72
Nonvested, March 31, 2005	1	33.99
Granted	-	47.06
Nonvested, March 31, 2006	1	38.01
Granted	1	49.56
Nonvested, March 31, 2007	2	45.18

The following table provides data related to RS and RSU activity:

<i>(In millions)</i>	Years Ended March 31,		
	2007	2006	2005
Total fair value of shares vested	\$ 5	\$ 11	\$ 2
Total compensation cost, net of estimated forfeitures, related to nonvested RSU awards not yet recognized, pre-tax ⁽¹⁾	\$ 32	\$ 45	\$ 15
Weighted-average period in years over which RSU cost is expected to be recognized	2	3	2

(1) Compensation cost in 2006 and 2005 did not reflect any forfeiture assumptions as required under APB Opinion No. 25.

In May 2006, the Compensation Committee approved 1 million PeRSU target share units representing the base number of awards that could be granted, if goals are attained, and would be granted in the first quarter of 2008 (the "2007 PeRSU"). These target share units are not included in the table above as they have not been granted in the form of a RSU. As of March 31, 2007, the total compensation cost, net of estimated forfeitures, related to nonvested 2007 PeRSUs not yet recognized was approximately \$53 million, pre-tax (based on the period-end market price of the Company's common stock), and the weighted-average period over which the cost is expected to be recognized is 2 years.

In accordance with the provisions of SFAS No. 128, "Earnings per Share," the 2007 PeRSUs are included in the calculation of diluted weighted average shares for the year ended March 31, 2007 as the performance goals have been achieved.

V. Employee Stock Purchase Plan ("ESPP")

The ESPP allows eligible employees to purchase shares of our common stock through payroll deductions. The deductions occur over three-month purchase periods and the shares are then purchased at 85% of the market price at the end of each purchase period. Employees are allowed to terminate their participation in the ESPP at any time during the purchase period prior to the purchase of the shares, and any amounts accumulated during that period are refunded.

The 15% discount provided to employees on these shares is included in compensation expense. The funds outstanding at the end of a quarter are included in the calculation of diluted weighted average shares outstanding. These amounts have not been significant.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)****20. Related Party Balances and Transactions**

Notes receivable outstanding from certain of our current and former officers and senior managers totaled \$25 million and \$45 million at March 31, 2007 and 2006. These notes related to purchases of common stock under our various employee stock purchase plans. The notes bear interest at rates ranging from 4.7 % to 7.1 % and were due at various dates through February 2004. Interest income on these notes is recognized only to the extent that cash is received. These notes, which are included in other capital in the consolidated balance sheets, were issued for amounts equal to the market value of the stock on the date of the purchase and are full recourse to the borrower. At March 31, 2007, the value of the underlying stock collateral was \$20 million. The collectability of these notes is evaluated on an ongoing basis. As a result, we recorded net credits of \$2 million, \$9 million and \$6 million in 2007, 2006 and 2005 based on changes in price of the underlying stock collateral. At March 31, 2007 and 2006, we provided a reserve of approximately \$6 million and \$12 million for the outstanding notes. Other receivable balances held with related parties, consisting of loans made to certain officers and senior managers and an equity-held investment, at March 31, 2007 and 2006 amounted to \$1 million.

In 2007, 2006 and 2005 we incurred approximately \$7 million to \$8 million annually of rental expense paid to an equity-held investment. In addition, in 2007, 2006 and 2005 we purchased \$3 million of services per year from an equity-held investment. At March 31, 2007, we had a \$6 million loan receivable from an equity held investment. The loan bears interest at 7.9%.

21. Segments of Business

Our segments include Pharmaceutical Solutions, Medical-Surgical Solutions and Provider Technologies. We evaluate the performance of our operating segments based on operating profit before interest expense, income taxes and results from discontinued operations. Our Corporate segment includes expenses associated with Corporate functions and projects, certain employee benefits, and the results of certain joint venture investments. Corporate expenses are allocated to the operating segments to the extent that these items can be directly attributable to the segment.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Financial information relating to the reportable operating segments is presented below:

(In millions)	Years Ended March 31,		
	2007	2006	2005
Revenues			
Pharmaceutical Solutions ⁽¹⁾	\$ 88,708	\$ 83,404	\$ 75,924
Medical-Surgical Solutions	2,364	2,037	1,870
Provider Technologies			
Software and software systems	374	322	246
Services	1,365	1,069	936
Hardware	166	151	120
Total Provider Technologies	1,905	1,542	1,302
Total	\$ 92,977	\$ 86,983	\$ 79,096
Operating profit ⁽²⁾			
Pharmaceutical Solutions ^{(3) (4)}	\$ 1,361	\$ 1,211	\$ 1,071
Medical-Surgical Solutions	81	83	81
Provider Technologies	159	143	107
Total	1,601	1,437	1,259
Corporate	(211)	(127)	(207)
Securities Litigation charge (credit)	6	(45)	(1,200)
Interest Expense	(99)	(94)	(118)
Income (loss) from continuing operations before income taxes	\$ 1,297	\$ 1,171	\$ (266)
Depreciation and amortization ⁽⁵⁾			
Pharmaceutical Solutions	\$ 116	\$ 110	\$ 108
Medical-Surgical Solutions	25	23	23
Provider Technologies	108	89	80
Corporate	46	40	34
Total	\$ 295	\$ 262	\$ 245
Expenditures for long-lived assets ⁽⁶⁾			
Pharmaceutical Solutions	\$ 49	\$ 83	\$ 62
Medical-Surgical Solutions	14	6	6
Provider Technologies	36	22	19
Corporate	27	55	48
Total	\$ 126	\$ 166	\$ 135
Segment assets, at year end			
Pharmaceutical Solutions	\$ 15,129	\$ 13,737	\$ 13,113
Medical-Surgical Solutions	1,457	1,268	1,279
Provider Technologies	3,485	1,602	1,459
Total	20,071	16,607	15,851
Corporate			
Cash and cash equivalents	1,954	2,139	1,800
Other	1,918	2,215	1,124
Total	\$ 23,943	\$ 20,961	\$ 18,775

(1) In addition to the distribution of pharmaceutical and healthcare products, our Pharmaceutical Solutions segment revenues include disease management, patient and other services for payors, software, consulting and outsourcing to pharmacies, and, through investment in Parata, sells automated pharmaceutical dispensing systems for retail pharmacies. Revenues from these products and services were not a material component of segment revenues in 2007, 2006 and 2005. In addition, revenues derived from services represent less than 2% of this segment's 2007, 2006 and 2005 revenues.

(2) Includes \$23 million, \$20 million and \$13 million of net earnings from equity investments in 2007, 2006 and 2005.

(3) Operating profit for 2007, 2006 and 2005 includes \$10 million, \$95 million and \$41 million representing our share of settlements of antitrust class action lawsuits brought against certain drug manufacturers. These settlements were recorded as reductions to cost of sales within our consolidated statements of operations in our Pharmaceutical Solutions segment.

(4) Operating profit for 2007 includes an \$11 million credit to income due to an adjustment to a legal reserve and for 2006, includes a \$15 million credit to income due to a recovery of a previously reserved customer account.

(5) Includes amortization of intangibles, capitalized software held for sale and capitalized software for internal use.

(6) Long-lived assets consist of property, plant and equipment.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Revenues and property, plant and equipment by geographic areas were as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2007	2006	2005
Revenues			
United States	\$ 86,026	\$ 80,868	\$ 73,684
International	6,951	6,115	5,412
Total	<u>\$ 92,977</u>	<u>\$ 86,983</u>	<u>\$ 79,096</u>
Property, plant and equipment, net, at year end			
United States	\$ 606	\$ 591	\$ 540
International	78	72	67
Total	<u>\$ 684</u>	<u>\$ 663</u>	<u>\$ 607</u>

International operations primarily consist of our Canadian pharmaceutical and healthcare products distribution business and our investment in Nadro for our Pharmaceutical Solutions segment. Our Provider Technologies business has operations in the Canada, United Kingdom, other European countries and Israel. We also have a software manufacturing and a printing facility in Ireland. Net revenues were attributed to geographic areas based on the customers' shipment locations.

In April 2007, we reorganized certain businesses. As a result, we will report on our new organizational structure on a retroactive basis beginning in the first quarter of 2008.

McKESSON CORPORATION

FINANCIAL NOTES (Concluded)

22. Quarterly Financial Information (Unaudited)

<i>(In millions, except per share amounts)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Fiscal 2007					
Revenues	\$ 23,315	\$ 22,386	\$ 23,111	\$ 24,165	\$ 92,977
Gross profit	996	1,024	1,061	1,251	4,332
Income (loss) after income taxes ⁽¹⁾					
Continuing operations	\$ 184	\$ 287	\$ 240	\$ 257	\$ 968
Discontinued operations	-	(58)	3	-	(55)
Total	\$ 184	\$ 229	\$ 243	\$ 257	\$ 913
Earnings (loss) per common share ⁽¹⁾					
Diluted					
Continuing operations	\$ 0.60	\$ 0.94	\$ 0.79	\$ 0.85	\$ 3.17
Discontinued operations	-	(0.19)	0.01	-	(0.18)
Total	\$ 0.60	\$ 0.75	\$ 0.80	\$ 0.85	\$ 2.99
Basic					
Continuing operations	\$ 0.61	\$ 0.96	\$ 0.81	\$ 0.87	\$ 3.25
Discontinued operations	-	(0.19)	0.01	-	(0.19)
Total	\$ 0.61	\$ 0.77	\$ 0.82	\$ 0.87	\$ 3.06
Cash dividends per common share	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.24
Market prices per common share					
High	\$ 52.95	\$ 55.10	\$ 54.39	\$ 59.53	\$ 59.53
Low	44.60	45.23	47.38	50.80	44.60
Fiscal 2006					
Revenues	\$ 20,700	\$ 21,253	\$ 22,240	\$ 22,790	\$ 86,983
Gross profit	896	868	974	1,039	3,777
Income (loss) after income taxes ⁽¹⁾					
Continuing operations	\$ 166	\$ 152	\$ 204	\$ 223	\$ 745
Discontinued operations	5	15	(11)	(3)	6
Total	\$ 171	\$ 167	\$ 193	\$ 220	\$ 751
Earnings (loss) per common share ⁽¹⁾					
Diluted					
Continuing operations	\$ 0.53	\$ 0.48	\$ 0.65	\$ 0.71	\$ 2.36
Discontinued operations	0.02	0.05	(0.04)	(0.01)	0.02
Total	\$ 0.55	\$ 0.53	\$ 0.61	\$ 0.70	\$ 2.38
Basic					
Continuing operations	\$ 0.55	\$ 0.49	\$ 0.66	\$ 0.73	\$ 2.44
Discontinued operations	0.02	0.05	(0.03)	(0.01)	0.02
Total	\$ 0.57	\$ 0.54	\$ 0.63	\$ 0.72	\$ 2.46
Cash dividends per common share	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.24
Market prices per common share					
High	\$ 44.94	\$ 47.88	\$ 52.89	\$ 54.92	\$ 54.92
Low	34.93	43.43	43.37	49.79	34.93

(1) Income (loss) after income taxes and earnings (loss) per common share includes charges and credits relating to our Securities Litigation, as discussed in Financial Note 17.

McKESON CORPORATION

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

John H. Hammergren
Chairman, President and
Chief Executive Officer,
McKesson Corporation

Wayne A. Budd
Senior Counsel,
Goodwin Procter LLP

Alton F. Irby III
Chairman and Founding Partner,
London Bay Capital

M. Christine Jacobs
President and
Chief Executive Officer,
Theragenics Corporation

Marie L. Knowles
Executive Vice President and
Chief Financial Officer, Retired,
Atlantic Richfield Company

David M. Lawrence M.D.
Chairman and Chief Executive Officer, Retired
Kaiser Foundation Health Plan, Inc., and
Kaiser Foundation Hospitals

Robert W. Matschullat
Vice Chairman and Chief Financial Officer, Retired
The Seagram Company Ltd.

James V. Napier
Chairman of the Board, Retired
Scientific-Atlanta, Inc.

Jane E. Shaw, Ph.D.
Chairman and Chief Executive Officer, Retired,
Acrogen, Inc.

CORPORATE OFFICERS

John H. Hammergren
Chairman, President and
Chief Executive Officer

Jeffrey C. Campbell
Executive Vice President and
Chief Financial Officer

Paul C. Julian
Executive Vice President,
Group President

Paul E. Kirincic
Executive Vice President, Human Resources

Nicholas A. Loiacono
Vice President and Treasurer

Marc E. Owen
Executive Vice President, Corporate Strategy
and Business Development

Pamela J. Pure
Executive Vice President,
President, McKesson Provider Technologies

Nigel A. Rees
Vice President and Controller

Laureen E. Seeger
Executive Vice President, General Counsel
and Secretary

Randall N. Spratt
Executive Vice President,
Chief Information Officer

McKESSON CORPORATION

CORPORATE INFORMATION

Common Stock

McKesson Corporation common stock is listed on the New York Stock Exchange (ticker symbol MCK) and is quoted in the daily stock tables carried by most newspapers.

Stockholder Information

The Bank of New York, 101 Barclay Street, 11 East, New York, NY 10286 acts as transfer agent, registrar, dividend-paying agent and dividend reinvestment plan agent for McKesson Corporation stock and maintains all registered stockholder records for the Company. For information about McKesson Corporation stock or to request replacement of lost dividend checks, stock certificates, 1099-DIV's, or to have your dividend check deposited directly into your checking or savings account, stockholders may call The Bank of New York's telephone response center at (800) 524-4458, weekdays 9:00 a.m. to 5:00 p.m., ET. For the hearing impaired call (888) 269-5221. The Bank of New York also has a Web site: <http://stock.bankofny.com> that stockholders may use 24 hours a day to request account information. An Interactive Voice Response System is available 24 hours a day, seven days a week at (800) 524-4458.

Dividends and Dividend Reinvestment Plan

Dividends are generally paid on the first business day of January, April, July and October. McKesson Corporation's Dividend Reinvestment Plan offers stockholders the opportunity to reinvest dividends in common stock and to purchase additional shares of common stock. Stock in an individual's Dividend Reinvestment Plan is held in book entry at the Company's transfer agent, the Bank of New York. For more information, or to request an enrollment form, call The Bank of New York's telephone response center at (866) 216-0306. From outside the United States, call 1-610-382-7833.

Annual Meeting

McKesson Corporation's Annual Meeting of Stockholders will be held at 8:30 a.m., PDT, on Wednesday July 25, 2007, at the A. P. Giannini Auditorium, 555 California Street, San Francisco, California.

Exhibit 31.1

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John H. Hammergren, certify that:

1. I have reviewed this annual report on Form 10-K of McKesson Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2007

/s/ John H. Hammergren
John H. Hammergren
Chairman, President and Chief Executive Officer

Exhibit 31.2

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeffrey C. Campbell, certify that:

1. I have reviewed this annual report on Form 10-K of McKesson Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2007

/s/ Jeffrey C. Campbell
Jeffrey C. Campbell
Executive Vice President and Chief Financial Officer

Exhibit 32

**CERTIFICATION PURSUANT TO
18 U.S.C SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of McKesson Corporation (the "Company") on Form 10-K for the year ended March 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the dates indicated below, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of their knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John H. Hammergren
John H. Hammergren
Chairman, President and Chief Executive Officer
May 9, 2007

/s/ Jeffrey C. Campbell
Jeffrey C. Campbell
Executive Vice President and Chief Financial Officer
May 9, 2007

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002, and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

(This page intentionally left blank)

(This page intentionally left blank)

(This page intentionally left blank)

TRIAL EXHIBIT 90

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2008

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-13252

McKESSON CORPORATION

A Delaware Corporation

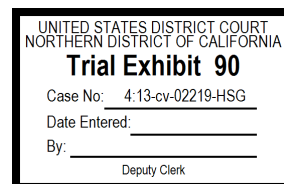
I.R.S. Employer Identification Number

94-3207296

McKesson Plaza

One Post Street, San Francisco, CA 94104

Telephone (415) 983-8300



Securities registered pursuant to Section 12(b) of the Act:

(Title of Each Class)

(Name of Each Exchange on Which Registered)

Common Stock, \$0.01 par value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act. Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, September 2007, was approximately \$16.3 billion.

Number of shares of common stock outstanding on April 30, 2008: 277,279,250.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for its 2008 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

McKESSON CORPORATION**TABLE OF CONTENTS**

<u>Item</u>	<u>Page</u>
PART I	
1. Business.....	3
1A. Risk Factors.....	10
1B. Unresolved Staff Comments	10
2. Properties.....	10
3. Legal Proceedings	10
4. Submission of Matters to a Vote of Security Holders	10
Executive Officers of the Registrant	11
PART II	
5. Market for the Registrant’s Common Equity, Related Stockholder Matters, Issuer Purchases of Equity Securities and Stock Price Performance Graph.....	12
6. Selected Financial Data	13
7. Management’s Discussion and Analysis of Results of Operations and Financial Condition	14
7A. Quantitative and Qualitative Disclosures About Market Risk.....	14
8. Financial Statements and Supplementary Data	14
9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	14
9A. Controls and Procedures.....	14
9B. Other Information.....	14
PART III	
10. Directors, Executive Officers and Corporate Governance	15
11. Executive Compensation	15
12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.....	15
13. Certain Relationships and Related Transactions and Director Independence	17
14. Principal Accounting Fees and Services	17
PART IV	
15. Exhibits and Financial Statement Schedule.....	18
Signatures	19

McKESSON CORPORATION**PART I****Item 1. Business****General**

McKesson Corporation (“McKesson,” the “Company,” the “Registrant,” or “we” and other similar pronouns), is a Fortune 18 corporation providing supply, information and care management products and services designed to reduce costs and improve quality across the healthcare industry.

The Company’s fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references in this document to a particular year shall mean the Company’s fiscal year.

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the “Exchange Act”), as amended, are available free of charge on our Web site (www.mckesson.com under the “Investors – SEC Filings” caption) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (“SEC” or the “Commission”). The content on any Web site referred to in this Annual Report on Form 10-K is not incorporated by reference into this report, unless expressly noted otherwise.

Business Segments

We operate in two segments. The McKesson Distribution Solutions segment distributes ethical and proprietary drugs, medical-surgical supplies and equipment, and health and beauty care products throughout North America. This segment also provides specialty pharmaceutical solutions for biotech and pharmaceutical manufacturers, sells pharmacy software and provides consulting, outsourcing and other services. This segment includes a 49% interest in Nadro, S.A. de C.V., (“Nadro”) the leading pharmaceutical distributor in Mexico and a 39% interest in Parata Systems, LLC (“Parata”), which sells automated pharmacy and supply management systems and services to retail and institutional outpatient pharmacies.

The McKesson Technology Solutions segment delivers enterprise-wide clinical, patient care, financial, supply chain, and strategic management software solutions, pharmacy automation for hospitals, as well as connectivity, outsourcing and other services. Our Payor group of businesses, which includes our InterQual®, clinical auditing and compliance and medical management software businesses and our care management programs, are also included in this segment. The segment’s customers include hospitals, physicians, homecare providers, retail pharmacies and payors from North America, the United Kingdom, other European countries and Asia Pacific.

Net revenues for our segments for the last three years were as follows:

<i>(Dollars in billions)</i>	2008		2007		2006	
Distribution Solutions	\$ 98.7	97%	\$ 90.7	98%	\$ 85.1	98%
Technology Solutions	3.0	3	2.3	2	1.9	2
Total	\$ 101.7	100%	\$ 93.0	100%	\$ 87.0	100%

Distribution Solutions

McKesson Distribution Solutions consists of the following businesses: McKesson U.S. Pharmaceutical, McKesson Canada, McKesson Medical-Surgical, McKesson Retail Automation and McKesson Specialty Distribution. We also own an approximate 49% interest in Nadro and an approximate 39% interest in Parata.

U.S. Pharmaceutical Distribution: This business supplies pharmaceuticals and other healthcare related products to customers in three primary customer segments: 1) retail national accounts (including national and regional chains, food/drug combinations, mail order pharmacies and mass merchandisers); 2) independent retail pharmacies, and; 3) institutional healthcare providers (including hospitals, health systems, integrated delivery networks, clinics and other acute-care facilities and long-term care providers).

McKESSON CORPORATION

Our U.S. pharmaceutical distribution business operates and serves thousands of customer locations through a network of 29 distribution centers, as well as a master redistribution center, a strategic redistribution center and two repackaging facilities, serving all 50 states and Puerto Rico. We invest in technology and other systems at all of our distribution centers to enhance safety, reliability and the best product availability for our customers. For example, in all of our distribution centers we use Acumax® Plus, a Smithsonian award-winning technology, which integrates and tracks all internal functions, such as receiving, put-away and order fulfillment. Acumax Plus uses bar code technology, wrist-mounted computer hardware, and radio frequency signals to provide our customers with real-time product availability and industry-leading order quality and fulfillment in excess of 99.9% accuracy. In addition, we offer Mobile ManagerSM, which integrates portable handheld technology with Acumax Plus to give customers complete ordering and inventory control. We also offer Supply Management OnlineSM, an Internet-based tool that provides item look-up and real-time inventory availability as well as ordering, purchasing, third-party reconciliation and account management functionality. Together, these features help ensure that our customers have the right products at the right time for their facilities and patients.

To maximize distribution efficiency and effectiveness, we follow the Six Sigma methodology — an analytical approach that emphasizes setting high quality objectives, collecting data and analyzing results to a fine degree in order to improve processes, reduce costs and minimize errors. Furthermore, we continue to implement information systems to help achieve greater consistency and accuracy both internally and for our customers.

Our U.S. pharmaceutical distribution business' major value-added offerings, by customer group, include the following:

Retail National Accounts — Business solutions that help national accounts increase revenues and profitability:

- Central Fill — Prescription refill service that enables pharmacies to refill prescriptions remotely, faster, more accurately and at a lower cost, while reducing inventory levels and improving customer service.
- Redistribution Centers — Two facilities totaling 420 thousand square feet that offer access to inventory for single source warehouse purchasing, including pharmaceuticals and biologicals. These distribution centers also provide the foundation for a two-tiered distribution network that supports best-in-class direct store delivery.
- RxPakSM — Bulk repackaging service that leverages our purchasing power and supplier relationships to provide pharmaceuticals at reduced prices, help increase inventory turns and reduce working capital investment.
- Inventory Management — An integrated solution comprising forecasting software and automated replenishment technologies that reduce inventory carrying costs.

Independent Retail Pharmacies — Solutions for managed care contracting, branding and advertising, merchandising and purchasing that help independent pharmacists focus on patient care while improving profitability:

- Health Mart® — Franchise program that provides independent pharmacies with managed care that drives Pharmacy Benefit Manager recognition, branding that drives consumer recognition, in-store programs that drive manufacturer and payor recognition, and community advocacy programs that drive industry recognition.
- AccessHealth® — Comprehensive managed care and reconciliation assistance services that help independent pharmacies save time, access competitive reimbursement rates and improve cash flow.
- McKesson OneStop Generics® — Generic pharmaceutical purchasing program that helps pharmacies maximize their cost savings with a broad selection of generic drugs, lower up-front pricing and one-stop shopping.
- Prefer Rx — Discount program that offers aggressive prices on more than 100 branded drugs, helping retail independent pharmacies increase margins and eliminate rebate paperwork.
- Sunmark® — Complete line of more than 1,000 products that provide retail independent pharmacies with value-priced alternatives to national brands.
- FrontEdgeTM — Strategic planning, merchandising and price maintenance program that helps independent pharmacies maximize store profitability.
- McKesson Home Health Care — Comprehensive line of more than 1,800 home health care products, including durable medical equipment, diabetes supplies, self-care supplies and disposables from national brands and the Sunmark® line.

McKESON CORPORATION

Institutional Healthcare Providers — Electronic ordering/purchasing and supply chain management systems that help improve efficiencies, save labor and improve asset utilization:

- Fulfill-Rx™ — Ordering and inventory management system that integrates McKesson pharmaceutical distribution services with our automation solutions, thus empowering hospitals to optimize the often complicated and disjointed processes related to unit-based cabinet replenishment and inventory management.
- Asset Management — Award-winning inventory optimization and purchasing management program that helps institutional providers lower costs while ensuring product availability.
- SKY Packaging — Blister-format packaging containing the most widely prescribed dosages and strengths in generic oral solid-medications. Enables acute care, long-term care and institutional pharmacies to provide cost-effective, uniform packaging.
- McKesson 340B Manager — Software solution that manages, tracks, and reports on the medication replenishment associated with the federal 340B Drug Pricing Program, helping institutional providers maximize their 340B return.
- AccessHealth® — Expert service for third-party contracting and payment consolidation that helps institutional providers save time and accelerate reimbursement.
- High Performance Pharmacy — Framework that identifies and categorizes hospital pharmacy best practices to help improve clinical outcomes and financial results. The High Performance Pharmacy Assessment Tool and the High Performance Pharmacy Benchmarking Service enable hospital pharmacies to measure against comparable institutions and chart a step-by-step path to high performance.

International Pharmaceutical Distribution: McKesson Canada, a wholly-owned subsidiary, is the largest pharmaceutical distributor in Canada. McKesson Canada, through its network of 17 distribution centers, provides logistics and distribution to more than 800 manufacturers – delivering their products to retail pharmacies, hospitals, long-term care centers, clinics and institutions throughout Canada. Beyond pharmaceutical distribution, logistics and order fulfillment, McKesson Canada has automated over 2,500 retail pharmacies and is also active in hospital automation solutions, dispensing more than 100 million doses each year. In partnership with other McKesson businesses, McKesson Canada provides a full range of services to Canadian manufacturers and healthcare providers, contributing to the quality and safety of care for Canadian patients.

We also own an approximate 49% interest in Nadro, the leading pharmaceutical distributor in Mexico.

Medical–Surgical Distribution: Medical-Surgical distribution provides medical-surgical supply distribution, equipment, logistics and other services to healthcare providers including physicians’ offices, surgery centers, extended care facilities, homecare and occupational health sites through a network of 29 distribution centers within the U.S. This business is the leading provider of supplies to the full range of alternate-site healthcare facilities, including physicians’ offices, clinics and surgery centers (primary care), long-term care, occupational health facilities and homecare sites (extended care). Through a variety of technology products and services geared towards the supply chain, our Medical-Surgical distribution business is focused on helping its customers operate more efficiently while providing the industry’s most extensive product offering, including our own private label line. This business also includes ZEE® Medical, North America’s leading provider of first aid, safety and training solutions, providing services to industrial and commercial customers. This business offers an extensive line of products and services aimed at maximizing productivity and minimizing the liability and cost associated with workplace illnesses and injuries.

McKesson Retail Automation: This business supplies integrated pharmacy management systems and services to retail and institutional outpatient pharmacies as well as payors. We also own an approximate 39% interest in Parata which sells automated pharmacy and supply management systems and services to retail and institutional outpatient pharmacies.

McKesson Specialty Distribution: This business’ product-specific solutions are directed towards manufacturers, payors and physicians to enable delivery and administration of high-cost, often injectable, bio-pharmaceutical drugs used to treat patients with chronic disease. The business facilitates patient and provider access to specialty pharmaceuticals across multiple delivery channels (direct-to-physician wholesale, patient-direct specialty pharmacy dispensing and access to retail pharmacy), provides clinical support and treatment compliance programs that help patients stay on complex therapies and offers reimbursement, data collection and analysis services.

McKESSON CORPORATION*Technology Solutions*

Our Technology Solutions segment provides a comprehensive portfolio of software, automation, support and services to help healthcare organizations improve quality and patient safety, reduce the cost and variability of care and better manage their resources and revenue stream. This segment markets its products and services to integrated delivery networks, hospitals, physician practices, home healthcare providers, retail pharmacies and payors. This segment also includes our Payor group of businesses, which includes our InterQual® and clinical auditing and compliance software businesses and our disease and medical management programs. The segment sells its solutions and services internationally through subsidiaries and/or distribution agreements in Canada, the United Kingdom, Ireland, other European countries, Asia Pacific and Israel.

The product portfolio for the Technology Solutions segment is designed to address a wide array of healthcare clinical and business performance needs ranging from medication safety and information access to revenue cycle management, resource utilization and physician adoption of electronic health records (“EHR”). Analytics software enables organizations to measure progress as they automate care processes for optimal clinical outcomes, business and operating results, and regulatory compliance. To ensure that organizations achieve the maximum value for their information technology investment, the Technology Solutions segment also offers a wide range of services to support the implementation and use of solutions as well as assist with business and clinical redesign, process re-engineering and staffing (both information technology and back-office).

Key solution areas are as follows:

Clinical management: Horizon Clinicals® is built with architecture to facilitate integration and enable modular system deployment. It includes a clinical data repository, clinical decision support/physician order entry, point-of-care documentation with bar-coded medication administration, enterprise laboratory, radiology, pharmacy, surgical management, an emergency department solution and an ambulatory EHR system. Horizon Clinicals® also includes solutions to facilitate physician access to patient information such as a Web-based physician portal and wireless devices that draw on information from the hospital’s information systems. In addition, the Horizon Clinicals® suite includes a comprehensive solution for homecare, including telehealth and hospice.

Enterprise imaging: In addition to document imaging to facilitate maintenance and access to complete medical records, the segment provides a suite of enterprise medical imaging and information management systems, including a picture archiving communications system and a comprehensive cardiovascular information system. The segment’s enterprise-wide approach to medical imaging enables organizations to take advantage of specialty-specific workstations while building an integrated image repository that manages all of the images and information captured throughout the care continuum.

Financial management: The segment’s revenue cycle solutions are designed to reduce days in accounts receivable, prevent insurance claim denials, reduce costs and improve productivity. Examples of solutions include online patient billing, contract management, electronic claims processing and coding compliance checking. The segment’s hospital information systems play a key role in managing the revenue cycle by automating the operation of individual departments and their respective functions within the inpatient environment.

Resource management: Resource management solutions consist of an integrated suite of applications that enhance an organization’s ability to plan and optimize the delivery of quality patient care. These solutions automate the management of the workforce, supply chain, surgical and anesthesia documentation, and provide analytics for performance measurement. Linking resource requirements to care protocols, the resource management solutions enhance predictability, improve communication, reduce variability and lower overall costs associated with care delivery.

Automation: Automation solutions include technologies that help hospitals re-engineer and improve their medication use and supply management processes. Examples include centralized pharmacy automation for unit-dose medications, unit-based cabinet technologies for secure medication storage and rapid retrieval, point-of-use supply automation systems for inventory management and revenue capture, and an automated medication administration system for ensuring accuracy at the point of care. Based on a foundation of bar-code scanning technology, these integrated solutions are designed to reduce errors and bring new levels of safety to patients.

McKESSON CORPORATION

Physician practice solutions: The segment provides a complete solution for physician practices of all sizes that includes software, revenue cycle outsourcing and connectivity services. Software solutions include practice management and EHR software for physicians of every size, specialty or geographic location. The segment's physician practice offering also includes outsourced billing and collection services as well as services that connect physicians with their patients, hospitals, retail pharmacies and payors. Revenue cycle outsourcing enables physician groups to avoid the infrastructure investment and administrative costs of their own in-house billing office. Services include clinical data collection, data input, medical coding, billing, contract management, cash collections, accounts receivable management and extensive reporting of metrics related to the physician practice.

Connectivity: Through the segment's vendor-neutral RelayHealth® and its "intelligent" network, the company provides interactive solutions that streamline clinical, financial and administrative communication between patients, providers, payors, pharmacies and financial institutions. RelayHealth helps to accelerate the delivery of high-quality care and improve financial performance through online consultation of physicians by patients, electronic prescribing by physicians, point-of-service resolution of pharmacy claims by payors, pre-visit financial clearance of patients by providers and post-visit settlement of provider bills by payors and patients. RelayHealth securely processes more than 12 billion financial and clinical transactions annually.

In addition to the product offerings described above, the Technology Solutions segment offers a comprehensive range of services to help organizations derive greater value, enhance satisfaction and return on investment throughout the life of the solutions implemented. The range of services includes:

Technology Services: The segment has worked with numerous healthcare organizations to support the smooth operation of their information systems by providing the technical infrastructure designed to maximize application accessibility, availability, security and performance.

Professional Services: Professional services help customers achieve business results from their software or automation investment. The segment offers a wide array of quality service options, including consulting for business and/or clinical process improvement and re-design as well as implementation, project management, technical and education services relating to all products in the Technology Solutions segment.

Outsourcing Services: The segment helps organizations focus their resources on healthcare while the segment manages their information technology or operations through managed services, including outsourcing. Service options include remote hosting, managing hospital data processing operations, as well as strategic information systems planning and management, revenue cycle processes, payroll processing, business office administration and major system conversions.

Payor Group: The following suite of services and software products is marketed to payors, employers and government organizations to help manage the cost and quality of care:

- Disease management programs to improve the health status and health outcomes of patients with chronic conditions;
- Nurse triage services to provide health information and recommend appropriate levels of care;
- Clinical and analytical software to support utilization, case and disease management workflow;
- Business intelligence tools for measuring, reporting and improving clinical and financial performance;
- InterQual® Criteria for clinical decision support; and
- Claims performance solutions to facilitate accurate and efficient medical claim payment.

Acquisitions, Investments and Discontinued Operations

We have undertaken strategic initiatives in recent years designed to further focus on our core healthcare businesses and enhance our competitive position. We expect to continue to undertake such strategic initiatives in the future. These initiatives are detailed in Financial Notes 2 and 3 to the consolidated financial statements, "Acquisitions and Investments" and "Discontinued Operations," appearing in this Annual Report on Form 10-K.

McKESSON CORPORATION**Competition**

In every area of healthcare distribution operations, our Distribution Solutions segment faces strong competition, both in price and service, from national, regional and local full-line, short-line and specialty wholesalers, service merchandisers, self-warehousing chains, manufacturers engaged in direct distribution and large payor organizations. In addition, this segment faces competition from various other service providers and from pharmaceutical and other healthcare manufacturers (as well as other potential customers of the segment) which may from time to time decide to develop, for their own internal needs, supply management capabilities provided by the segment. Price, quality of service, and in some cases, convenience to the customer are generally the principal competitive elements in this segment.

Our Technology Solutions segment experiences substantial competition from many firms, including other computer services firms, consulting firms, shared service vendors, certain hospitals and hospital groups, hardware vendors and Internet-based companies with technology applicable to the healthcare industry. Competition varies in size from small to large companies, in geographical coverage and in scope and breadth of products and services offered.

Intellectual Property

The principal trademarks and service marks of the Distribution Solutions segment include: AccessHealth®, Acumax®, Closed Loop DistributionSM, Comets®, ConsumerScriptSM,.com Pharmacy Solutions®, Econolink®, Empowering Healthcare®, EnterpriseRxTM, Expect More From MooreSM, FrontEdgeTM, Fulfill-RxTM, Health Mart®, High Performance PharmacySM, LoyaltyScriptSM, Max ImpactSM, McKesson®, McKesson Advantage®, McKesson Empowering Healthcare®, McKesson Max Rewards®, McKesson OneStop Generics®, McKesson Priority Express®, McKesson Supply ManagerSM, MediNetTM, Medi-Pak®, Mobile ManagerSM, Moore Medical®, MoorebrandSM, NOA®, Pharma360®, PharmacyRxTM, Pharmaserv®, PharmAssureSM, ProIntercept®, ProMed®, ProPBM®, RX PakSM, RX Savings Access®, ServiceFirst®, Staydry®, Sunmark®, Supply Management OnlineSM, TrialScript®, Valu-Rite®, XVIII B Medi Mart® and ZEE®.

The substantial majority of technical concepts and codes embodied in our Technology Solutions segment's computer programs and program documentation are protected as trade secrets. The principal trademarks and service marks for this segment are: AcuDose-Rx®, ANSOSTM, Ask-A-Nurse®, Care Fully ConnectedTM, CareEnhance®, CarePoint-RNTM, Connect-RNTM, Connect-Rx®, CRMS®, DataStat®, ePremis®, Episode Profiler®, E-ScriptTM, Fulfill-RxSM, HealthQuest®, Horizon Admin-RxTM, Horizon Clinicals®, HorizonWP®, InterQual®, Lytec®, MedCarousel®, MedisoftTM, One-Call®, One-Staff®, ORSOSTM, PACMEDTM, Pak Plus-Rx®, Paragon®, Pathways 2000®, Patterns ProfilerTM, Per-Se®, Per-Se Technologies® (and logo), PerYourHealth.com®, Practice Partner®, Premis®, RelayHealth®, ROBOT-Rx®, SelfPace®, Series 2000TM, STAR 2000TM, SupplyScanTM, TRENDSTAR® and WebVisitTM.

We also own other registered and unregistered trademarks and service marks and similar rights used by our business segments. All of the principal trademarks and service marks are registered in the United States, or registrations have been applied for with respect to such marks, in addition to certain other jurisdictions. The United States federal registrations of these trademarks have terms of ten or twenty years, depending on date of registration, and are subject to unlimited renewals. We believe we have taken all necessary steps to preserve the registration and duration of our trademarks and service marks, although no assurance can be given that we will be able to successfully enforce or protect our rights thereunder in the event that they are subject to third-party infringement claims. We do not consider any particular patent, license, franchise or concession to be material to our business. We also hold copyrights in, and patents related to, many of our products.

McKESSON CORPORATION**Other Information About the Business**

Customers: In recent years, a significant portion of our revenue growth has been with a limited number of large customers. During 2008, sales to our ten largest customers accounted for approximately 53% of our total consolidated revenues. Sales to our two largest customers, CVS Caremark Corporation (“Caremark,”) and Rite Aid Corporation (“Rite Aid”) accounted for 14% and 13% of our total consolidated revenues. At March 31, 2008, accounts receivable from our ten largest customers were approximately 43% of total accounts receivable. Accounts receivable from Caremark and Rite Aid were approximately 12% and 11% of total accounts receivable. Substantially all of these revenues and accounts receivable are included in our Distribution Solutions segment.

Suppliers: We obtain pharmaceutical and other products from manufacturers, none of which accounted for more than approximately 9% of our purchases in 2008. The loss of a supplier could adversely affect our business if alternate sources of supply are unavailable. We believe that our relationships with our suppliers on the whole are good. The ten largest suppliers in 2008 accounted for approximately 48% of our purchases.

A significant portion of our distribution arrangements with the manufacturers provides us compensation based on a percentage of our purchases. However, we also have certain distribution arrangements with manufacturers that include an inflation-based compensation component whereby we benefit when the manufacturers increase their prices as we sell our inventory being held at the new higher prices. For these manufacturers, a reduction in the frequency and magnitude of price increases, as well as restrictions in the amount of inventory available to us, could adversely impact our gross profit margin. In 2008 and 2007, we benefited from certain branded manufacturers’ price increases on selected drugs.

Research and Development: Our development expenditures primarily consist of our investment in software development held for sale. We expended \$420 million, \$359 million and \$285 million for development activities in 2008, 2007 and 2006, and of these amounts, we capitalized 17%, 21% and 22%. Development expenditures are primarily incurred by our Technology Solutions segment. Our Technology Solutions segment’s product development efforts apply computer technology and installation methodologies to specific information processing needs of hospitals and other customers. We believe a substantial and sustained commitment to such expenditures is important to the long-term success of this business. Additional information regarding our development activities is included in Financial Note 1 to the consolidated financial statements, “Significant Accounting Policies,” appearing in this Annual Report on Form 10-K.

Environmental Regulation: We sold our chemical distribution operations in 1987 and retained responsibility for certain environmental obligations. Agreements with the Environmental Protection Agency and certain states may require environmental assessments and cleanups at several closed sites. These matters are described further in Financial Note 17 to the consolidated financial statements, “Other Commitments and Contingent Liabilities,” appearing in this Annual Report on Form 10-K. Other than any expenditures that may be required in connection with those legal matters, we do not anticipate making substantial capital expenditures either for environmental issues, or to comply with environmental laws and regulations in the future. The amount of our capital expenditures for environmental compliance was not material in 2008 and is not expected to be material in the next year.

Employees: On March 31, 2008, we employed approximately 32,900 persons compared to 31,800 in 2007 and 26,400 in 2006.

Financial Information About Foreign and Domestic Operations: Information as to foreign and domestic operations is included in Financial Notes 1 and 21 to the consolidated financial statements, “Significant Accounting Policies” and “Segments of Business,” appearing in this Annual Report on Form 10-K.

McKESSON CORPORATION

Item 1A. Risk Factors

Information regarding our risk factors is included in the Financial Review under the captions “Factors Affecting Forward-Looking Statements” and “Additional Factors That May Affect Future Results,” beginning on page 49 of this Annual Report on Form 10-K.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Because of the nature of our principal businesses, our plant, warehousing, office and other facilities are operated in widely dispersed locations. The warehouses are typically owned or leased on a long-term basis. We consider our operating properties to be in satisfactory condition and adequate to meet our needs for the next several years without making capital expenditures materially higher than historical levels. Information as to material lease commitments is included in Financial Note 12 to the consolidated financial statements, “Lease Obligations,” appearing in this Annual Report on Form 10-K.

Item 3. Legal Proceedings

Certain legal proceedings in which we are involved are discussed in Financial Note 17 to our consolidated financial statements, “Other Commitments and Contingent Liabilities,” appearing in this Annual Report on Form 10-K.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the three months ended March 31, 2008.

McKESSON CORPORATION**Executive Officers of the Registrant**

The following table sets forth information regarding the executive officers of the Company, including their principal occupations during the past five years. The number of years of service with the Company includes service with predecessor companies.

There are no family relationships between any of the executive officers or directors of the Company. The executive officers are chosen annually to serve until the first meeting of the Board of Directors following the next annual meeting of stockholders and until their successors are elected and have qualified, or until death, resignation or removal, whichever is sooner.

<u>Name</u>	<u>Age</u>	<u>Position with Registrant and Business Experience</u>
John H. Hammergren	49	Chairman of the Board since July 2002; President and Chief Executive Officer since April 2001; and a director since July 1999. Service with the Company – 12 years.
Jeffrey C. Campbell.....	47	Executive Vice President and Chief Financial Officer since April 2004; Senior Vice President and Chief Financial Officer from December 2003 to April 2004. Senior Vice President and Chief Financial Officer, AMR Corporation (2002-2003). Service with the Company – 4 years.
Paul C. Julian.....	52	Executive Vice President, Group President since April 2004; Senior Vice President from August 1999 to April 2004; President of the Distribution Solutions business since March 2000. Service with the Company – 12 years.
Paul E. Kirincic	57	Executive Vice President, Human Resources since April 2004; Senior Vice President, Human Resources from January 2001 to April 2004. Service with the Company – 7 years.
Marc E. Owen.....	48	Executive Vice President, Corporate Strategy and Business Development since April 2004; Senior Vice President, Corporate Strategy and Business Development from September 2001 to April 2004. Service with the Company – 7 years.
Pamela J. Pure	47	Executive Vice President, President, McKesson Technology Solutions (formerly, McKesson Provider Technologies) since April 2004; Chief Operating Officer of McKesson Information Solutions from January 2002 to April 2004. Service with the Company – 7 years.
Laureen E. Seeger.....	46	Executive Vice President, General Counsel and Secretary since March 2006; Vice President and General Counsel of McKesson Provider Technologies from February 2000 to March 2006. Service with the Company – 8 years.
Randall N. Spratt	56	Executive Vice President, Chief Information Officer since July 2005; Senior Vice President, Chief Process Officer, McKesson Provider Technologies from April 2003 to July 2005; Senior Vice President, Imaging, Technology and Business Process Improvement from January 2000 to April 2003. Service with the Company – 22 years

McKESSON CORPORATION

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters, Issuer Purchases of Equity Securities and Stock Price Performance Graph

- (a) *Market Information:* The principal market on which the Company's common stock is traded is the New York Stock Exchange ("NYSE"). High and low prices for the common stock by quarter are included in Financial Note 22 to the consolidated financial statements, "Quarterly Financial Information (Unaudited)," appearing in this Annual Report on Form 10-K.
- (b) *Holders:* The number of record holders of the Company's common stock at March 31, 2008 was approximately 9,500.
- (c) *Dividends:* Dividend information is included in Financial Note 22 to the consolidated financial statements, "Quarterly Financial Information (Unaudited)," appearing in this Annual Report on Form 10-K.

In April 2008, the Company's Board of Directors ("Board") approved a change in the Company's dividend policy by increasing the amount of the Company's quarterly dividend from six cents to twelve cents per share, which will apply to ensuing quarterly dividend declarations until further action by the Board.

- (d) *Share Repurchase Plans:* The following table provides information on the Company's share repurchases during the fourth quarter of 2008:

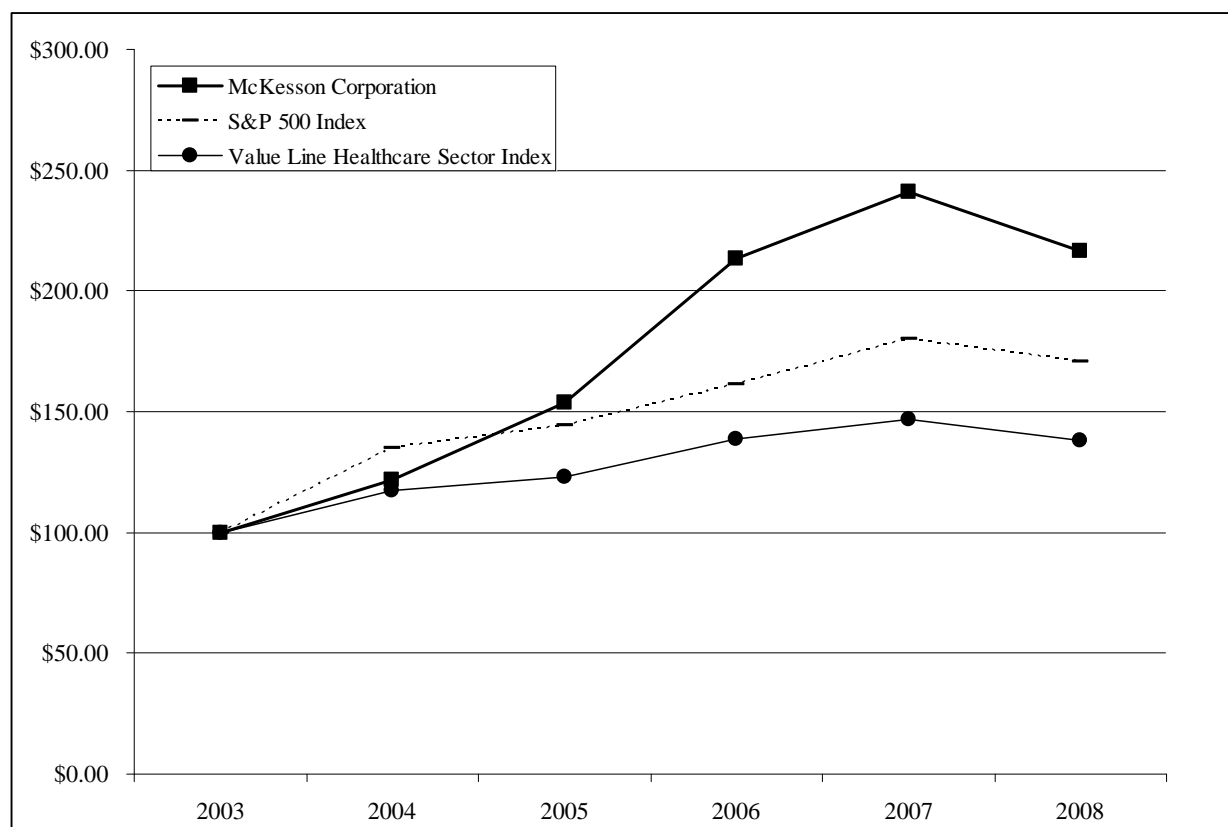
	Share Repurchases ⁽¹⁾			
	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
<i>(In millions, except price per share)</i>				
January 1, 2008 – January 31, 2008	-	\$ -	-	\$ 1,086
February 1, 2008 – February 29, 2008	8	58.64	8	630
March 1, 2008 – March 31, 2008	5	57.42	5	314
Total	13	58.14	13	314

- (1) This table does not include shares tendered to satisfy the exercise price in connection with cashless exercises of employee stock options or shares tendered to satisfy tax withholding obligations in connection with employee equity awards.

In April and September 2007, the Board approved two new plans to repurchase up to \$2.0 billion of the Company's common stock (\$1.0 billion per plan). In 2008, we repurchased a total of 28 million shares for \$1,686 million, fully utilizing the April 2007 plan, leaving \$314 million remaining on the September 2007 plan. In April 2008, the Board approved a new plan to repurchase an additional \$1.0 billion of the Company's common stock. Stock repurchases may be made from time-to-time in open market or private transactions.

McKESSON CORPORATION

- (e) *Stock Price Performance Graph:* The following graph compares the cumulative total stockholder return on the Company's common stock for the periods indicated with the Standard & Poor's 500 Index and the Value Line Healthcare Sector Index (composed of 154 companies in the health care industry, including the Company).



	March 31,					
	2003	2004	2005	2006	2007	2008
McKesson Corporation	\$ 100.00	\$ 121.66	\$ 153.74	\$ 213.39	\$ 240.76	\$ 216.23
S&P 500 Index	\$ 100.00	\$ 135.12	\$ 144.16	\$ 161.07	\$ 180.13	\$ 170.98
Value Line Healthcare Sector Index	\$ 100.00	\$ 117.09	\$ 122.89	\$ 138.67	\$ 146.74	\$ 137.80

* Assumes \$100 invested in the Company's common stock and in each index on March 31, 2003 and that all dividends are reinvested.

Item 6. Selected Financial Data

Selected financial data is presented in the Five-Year Highlights section of this Annual Report on Form 10-K.

McKESSON CORPORATION

Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition

Management's discussion and analysis of the Company's results of operations and financial condition are presented in the Financial Review section of this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Information required by this item is included in the Financial Review section of this Annual Report on Form 10-K.

Item 8. Financial Statements and Supplementary Data

Financial Statements and Supplementary Data are included as separate sections of this Annual Report on Form 10-K. See Item 15.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our Chief Executive Officer and our Chief Financial Officer, with the participation of other members of the Company's management, have evaluated the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report, and have concluded that our disclosure controls and procedures are effective based on their evaluation of these controls and procedures as required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

Internal Control over Financial Reporting

Management's report on the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) in the Exchange Act), and the related report of our independent registered public accounting firm, are included on page 58 and page 59 of this Annual Report on Form 10-K, under the headings, "Management's Annual Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm," and are incorporated herein by reference.

Changes in Internal Controls

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Not applicable.

McKESSON CORPORATION

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information about our Directors is incorporated by reference from the discussion under Item 1 of our Proxy Statement for the 2008 Annual Meeting of Stockholders (the “Proxy Statement”) under the heading “Election of Directors.” Information about compliance with Section 16(a) of the Exchange Act is incorporated by reference from the discussion under the heading “Section 16(a) Beneficial Ownership Reporting Compliance” in our Proxy Statement. Information about our Audit Committee, including the members of the committee, and our Audit Committee financial expert is incorporated by reference from the discussion under the headings “Audit Committee Report” and “Audit Committee Financial Expert” in our Proxy Statement. The balance of the information required by this item is contained in the discussion entitled “Executive Officers of the Registrant” in Item 4 of Part I of this Annual Report on Form 10-K.

Pursuant to Section 303A.12 (a) of the NYSE Listed Company Manual, the Company’s Chief Executive Officer submitted to the NYSE a certification, dated August 20, 2007, stating that, as of such date, he was not aware of any violation by the Company of any NYSE corporate governance listing standards.

Information about the Code of Ethics governing our Chief Executive Officer, Chief Financial Officer, Controller and Financial Managers can be found on our Web site, www.mckesson.com, under the Governance tab. The Company’s Corporate Governance Guidelines and Charters for the Audit and Compensation Committees and the Committee on Directors and Corporate Governance can also be found on our Web site under the Governance tab.

Copies of these documents may be obtained from:

Corporate Secretary
McKesson Corporation
One Post Street, 35th Floor
San Francisco, CA 94104
(800) 826-9360

The Company intends to disclose required information regarding any amendment to or waiver under the Code of Ethics referred to above by posting such information on our Web site within four business days after any such amendment or waiver.

Item 11. Executive Compensation

Information with respect to this item is incorporated by reference from the discussion under the heading “Executive Compensation” in our Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information about security ownership of certain beneficial owners and management is incorporated by reference from the discussion under the heading “Principal Stockholders” in our Proxy Statement.

McKESSON CORPORATION

The following table sets forth information as of March 31, 2008 with respect to the plans under which the Company's common stock is authorized for issuance:

<i>Plan Category (In millions, except per share amounts)</i>	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders ⁽¹⁾	16.5	\$ 55.25	21.4 ⁽²⁾
Equity compensation plans not approved by security holders ^{(3),(4)}	9.5	36.11	-

- (1) Includes shares available for purchase under the 2000 Employee Stock Purchase Plan ("ESPP"). Also includes options outstanding under the 1994 Stock Option and Restricted Stock Plan, which expired October 2004, the 2005 Stock Plan, and the 1997 Non-Employee Directors' Equity Compensation and Deferral Plan, which was replaced by the 2005 Stock Plan, following its approval by the stockholders on July 27, 2005.
- (2) Includes 5,565,419 shares available for purchase under the ESPP and 15,857,925 shares available for grant under the 2005 Stock Plan as of March 31, 2008.
- (3) Includes options that remain outstanding under the terminated broad-based 1999 Stock Option and Restricted Stock Plan, the 1998 Canadian Stock Incentive Plan, and two stock option plans, all of which were replaced by the 2005 Stock Plan following its approval by the stockholders on July 27, 2005.
- (4) As a result of acquisitions, the Company currently has five assumed option plans under which options are exercisable for 360,242 shares of Company common stock. No further awards will be made under any of the assumed plans and information regarding the assumed options is not included in the table above.

The following are descriptions of equity plans that have been approved by the Company's stockholders. The plans are administered by the Compensation Committee of the Board of Directors, except for the portion of the 2005 Stock Plan related to Non-Employee Directors, which is administered by the Committee on Directors and Corporate Governance.

2005 Stock Plan: The 2005 Stock Plan was adopted by the Board of Directors on May 25, 2005 and approved by the Company's stockholders on July 27, 2005. The 2005 Stock Plan initially provided for the grant of up to 13 million shares in the form of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance shares and other share-based awards. The 2005 Stock Plan was subsequently amended by the Board of Directors on May 23, 2007 to increase the common stock reserved for issuance by 15 million shares, which was approved by stockholders on July 25, 2007. For any one share of common stock issued in connection with a stock-settled stock appreciation right, restricted stock award, restricted stock unit award, performance share or other share-based award, two shares shall be deducted from the shares available for future grants. Shares of common stock not issued or delivered as a result of the net exercise of a stock appreciation right or option, shares used to pay the withholding taxes related to a stock award, or shares repurchased on the open market with proceeds from the exercise of options shall not be returned to the reserve of shares available for issuance under the 2005 Stock Plan.

Options are granted at not less than fair market value and have a term of seven years. Options generally become exercisable in four equal annual installments beginning one year after the grant date, or after four years from the date of grant. The award or vesting of restricted stock, restricted stock units ("RSUs") or performance based RSUs may be conditioned upon the attainment of one or more performance objectives. Vesting of such awards is generally a three year cliff.

Non-employee directors receive an annual grant of up to 5,000 RSUs, which vest immediately; however, payment of any shares is delayed until the director is no longer performing services for the Company. The 2005 Stock Plan replaced the 1997 Non-Employee Directors Equity Compensation and Deferral Plan.

2000 Employee Stock Purchase Plan (the "ESPP"): The ESPP is intended to qualify as an "employee stock purchase plan" within the meaning of Section 423 of the Internal Revenue Code. In March 2002, the Board amended the ESPP to allow for participation in the plan by employees of certain of the Company's international and certain other subsidiaries. As to those employees, the ESPP does not so qualify under Section 423 of the Internal Revenue Code. Currently, 16.1 million shares have been approved by stockholders for issuance under the ESPP.

McKESSON CORPORATION

The ESPP is implemented through a continuous series of three-month purchase periods (“Purchase Periods”) during which contributions can be made toward the purchase of common stock under the plan.

Each eligible employee may elect to authorize regular payroll deductions during the next succeeding Purchase Period, the amount of which may not exceed 15% of a participant’s compensation. At the end of each Purchase Period, the funds withheld by each participant will be used to purchase shares of the Company’s common stock. The purchase price of each share of the Company’s common stock is based on 85% of the fair market value of each share on the last day of the applicable Purchase Period. In general, the maximum number of shares of common stock that may be purchased by a participant for each calendar year is determined by dividing \$25,000 by the fair market value of one share of common stock on the offering date.

The following are descriptions of equity plans that have not been submitted for approval by the Company’s stockholders:

On July 27, 2005, the Company’s stockholders approved the 2005 Stock Plan which had the effect of terminating the 1999 Stock Option and Restricted Stock Plan, the 1998 Canadian Stock Incentive Plan, the Stock Option Plans adopted in January 1999 and August 1999, which plans had not been submitted for approval by the Company’s stockholders, and the 1997 Non-Employee Directors’ Equity Compensation and Deferral Plan, which had previously been approved by the Company’s stockholders. Prior grants under these plans include stock options, restricted stock and RSUs. Stock options under the terminated plans generally have a ten-year life and vest over four years. Restricted stock contains certain restrictions on transferability and may not be transferred until such restrictions lapse. Each of these plans has outstanding equity grants, which are subject to the terms and conditions of their respective plans, but no new grants will be made under these terminated plans.

Item 13. Certain Relationships and Related Transactions and Director Independence

Information with respect to certain transactions with management is incorporated by reference from the Proxy Statement under the heading “Certain Relationships and Related Transactions.” Additional information regarding related party transactions is included in the Financial Review section of this Annual Report on Form 10-K and Financial Note 20, “Related Party Balances and Transactions,” to the consolidated financial statements.

Item 14. Principal Accounting Fees and Services

Information regarding principal accounting fees and services is set forth under the heading “Ratification of Appointment of Deloitte & Touche LLP as the Company’s Independent Registered Public Accounting Firm for Fiscal 2009” in our Proxy Statement and all such information is incorporated herein by reference.

McKESSON CORPORATION**PART IV****Item 15. Exhibits and Financial Statement Schedule**(a) *Financial Statements, Financial Statement Schedule and Exhibits*

	<u>Page</u>
Consolidated Financial Statements and Report of Independent Registered Public Accounting Firm. See "Index to Consolidated Financial Information"	25
Supplementary Consolidated Financial Statement Schedule— Valuation and Qualifying Accounts	20
Financial statements and schedules not included have been omitted because of the absence of conditions under which they are required or because the required information, where material, is shown in the financial statements, financial notes or supplementary financial information.	
Exhibits submitted with this Annual Report on Form 10-K as filed with the SEC and those incorporated by reference to other filings are listed on the Exhibit Index.....	21

McKESSON CORPORATION

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

McKESSON CORPORATION

Dated: May 7, 2008

/s/ Jeffrey C. Campbell
Jeffrey C. Campbell
 Executive Vice President and Chief Financial Officer

On behalf of the Registrant and pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the date indicated:

*

John H. Hammergren
 Chairman, President and Chief Executive Officer
 (Principal Executive Officer)

*

Marie L. Knowles, Director

*

Jeffrey C. Campbell
 Executive Vice President and Chief Financial Officer
 (Principal Financial Officer)

*

David M. Lawrence M.D., Director

*

Nigel A. Rees
 Vice President and Controller
 (Principal Accounting Officer)

*

Edward A. Mueller, Director

*

Andy D. Bryant, Director

*

James V. Napier, Director

*

Wayne A. Budd, Director

*

Jane E. Shaw, Director

*

Alton F. Irby III, Director

*

/s/ Laureen E. Seeger
Laureen E. Seeger
 *Attorney-in-Fact

*

M. Christine Jacobs, Director

Dated: May 7, 2008

McKESSON CORPORATION

SCHEDULE II

SUPPLEMENTARY CONSOLIDATED FINANCIAL STATEMENT SCHEDULE
VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended March 31, 2008, 2007 and 2006
(In millions)

Description	Balance at Beginning of Year	Additions		Deductions From Allowance Accounts ⁽¹⁾	Balance at End of Year ⁽²⁾
		Charged to Costs and Expenses	Charged to Other Accounts ⁽³⁾		
Year Ended March 31, 2008					
Allowances for doubtful accounts	\$ 139	\$ 41	\$ 17	\$ (34)	\$ 163 ⁽⁴⁾
Other allowances	11	-	-	(2)	9
	<u>\$ 150</u>	<u>\$ 41</u>	<u>\$ 17</u>	<u>\$ (36)</u>	<u>\$ 172</u>
Year Ended March 31, 2007					
Allowances for doubtful accounts	\$ 124	\$ 24	\$ 15	\$ (24)	\$ 139 ⁽⁴⁾
Other allowances	7	4	-	-	11
	<u>\$ 131</u>	<u>\$ 28</u>	<u>\$ 15</u>	<u>\$ (24)</u>	<u>\$ 150</u>
Year Ended March 31, 2006					
Allowances for doubtful accounts	\$ 113	\$ 26 ⁽⁵⁾	\$ 23	\$ (38) ⁽⁵⁾	\$ 124
Other allowances	3	3	1	-	7
	<u>\$ 116</u>	<u>\$ 29</u>	<u>\$ 24</u>	<u>\$ (38)</u>	<u>\$ 131</u>

	2008	2007	2006
(1) Deductions:			
Written off	\$ 32	\$ 24	\$ 23
Credited to other accounts.....	2	-	15 ⁽⁵⁾
Total.....	<u>\$ 34</u>	<u>\$ 24</u>	<u>\$ 38</u>
(2) Amounts shown as deductions from receivables	<u>\$ 172</u>	<u>\$ 150</u>	<u>\$ 131</u>

(3) Primarily represents additions relating to acquisitions.

(4) Includes a \$10 million allowance for non-current receivables.

(5) Includes a \$15 million recovery of a previously reserved doubtful account.

McKESSON CORPORATION

EXHIBIT INDEX

Exhibits identified under “Incorporated by Reference” in the table below are on file with the Commission and are incorporated by reference as exhibits hereto.

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation of the Company as filed with the Delaware Secretary of State on July 25, 2007.	10-Q	1-13252	3.1	October 31, 2007
3.2	Amended and Restated By-Laws of the Company, dated as of January 4, 2007.	8-K	1-13252	3.1	January 8, 2007
4.1	Indenture, dated as of March 11, 1997, between the Company, as Issuer, and The First National Bank of Chicago, as Trustee.	10-K	1-13252	4.4	June 19, 1997
4.2	Amended and Restated Declaration of Trust of McKesson Financing Trust, dated as of February 20, 1997, among the Company, The First National Bank of Chicago, as Institutional Trustee, First Chicago, Inc., as Delaware Trustee, and the Regular Trustees.	S-3	333-26443	4.2	June 18, 1997
4.3	Indenture, dated as of January 29, 2002, between the Company, as Issuer, and the Bank of New York, as Trustee.	10-K	1-13252	4.6	June 12, 2002
4.4	Indenture, dated as of March 5, 2007, by and between the Company, as Issuer, and The Bank of New York Trust Company, N.A., as Trustee.	8-K	1-13252	4.1	March 5, 2007
10.1	Letter Agreement, dated January 11, 2005, and Annex A (Stipulation and Agreement of Settlement between Lead Plaintiff and Defendants McKesson HBOC, Inc. and HBO & Company) thereto in connection with the consolidated securities class action.	8-K	1-13252	99.1	January 18, 2005
10.2*	McKesson Corporation 1999 Stock Option and Restricted Stock Plan, as amended through May 26, 2004.	-	-	-	-
10.3*	Statement of Terms and Conditions Applicable to certain Stock Options granted on August 16, 1999.	10-K	1-13252	10.38	June 13, 2000
10.4*	McKesson Corporation 1997 Non-Employee Directors' Equity Compensation and Deferral Plan, as amended through January 29, 2003.	10-K	1-13252	10.4	June 10, 2004
10.5*	McKesson Corporation Supplemental Profit Sharing Investment Plan, as amended and restated as of January 29, 2003.	10-K	1-13252	10.6	June 6, 2003
10.6*	McKesson Corporation Deferred Compensation Administration Plan, amended and restated effective October 28, 2004.	10-K	1-13252	10.6	May 13, 2005
10.7* †	McKesson Corporation Deferred Compensation Administration Plan II, as amended and restated effective October 28, 2004, including Amendment No. 1 thereto effective July 25, 2007.	-	-	-	-

McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
10.8* †	McKesson Corporation Deferred Compensation Administration Plan III, effective January 1, 2005, including Amendment No. 1 thereto effective July 25, 2007.	-	-	-	-
10.9*	McKesson Corporation 1994 Option Gain Deferral Plan, as amended and restated effective October 28, 2004.	10-K	1-13252	10.8	May 13, 2005
10.10*	McKesson Corporation Management Deferred Compensation Plan, as amended and restated as of October 28, 2004.	10-K	1-13252	10.9	May 13, 2005
10.11*	McKesson Corporation Executive Benefit Retirement Plan, as amended and restated as of May 22, 2007.	10-Q	1-13252	10.2	July 30, 2007
10.12*	McKesson Corporation Executive Survivor Benefits Plan, as amended and restated as of October 28, 2004.	10-K	1-13252	10.11	May 13, 2005
10.13*	McKesson Corporation Severance Policy for Executive Employees, as amended and restated January 1, 2005.	10-Q	1-13252	10.13	November 1, 2006
10.14*	McKesson Corporation 2005 Management Incentive Plan, as amended and restated effective as of October 27, 2006.	10-Q	1-13252	10.14	November 1, 2006
10.15*	McKesson Corporation Long-Term Incentive Plan, as amended and restated as of January 1, 2005.	10-Q	1-13252	10.15	November 1, 2006
10.16*	McKesson Corporation Stock Purchase Plan, as amended through July 31, 2002.	10-K	1-13252	10.19	June 6, 2003
10.17*	Statement of Terms and Conditions Applicable to Certain Stock Options Granted on January 27, 1999.	10-K	1-13252	10.28	July 16, 1999
10.18*	Form of Restricted Stock Unit Agreement under the 2005 Stock Plan.	10-K	1-13252	10.19	May 16, 2006
10.19*	Statement of Terms and Conditions Applicable to Restricted Stock Units Granted to Outside Directors Pursuant to the 2005 Stock Plan, effective July 27, 2007.	-	-	-	-
10.20*	Form of Stock Option Grant Notice under the 2005 Stock Plan.	10-K	1-13252	10.20	May 16, 2006
10.21*	McKesson Corporation 2005 Stock Plan, as amended and restated on July 25, 2007.	10-Q	1-13252	10.1	October 31, 2007
10.22*	Statement of Terms and Conditions Applicable to Options, Restricted Stock, Restricted Stock Units and Performance Shares Granted to Employees Pursuant to the 2005 Stock Plan, effective April 25, 2006.	10-K	1-13252	10.23	May 16, 2006
10.23*	Statement of Terms and Conditions Applicable to Officers Pursuant to the 2005 Stock Plan.	8-K	1-13252	10.1	May 26, 2006
10.24*	Statement of Terms and Conditions Applicable to the Chief Executive Officer Pursuant to the 2005 Stock Plan.	8-K	1-13252	10.2	May 26, 2006

McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
10.25 †††	Deed of Settlement and Amendment in Relation to Human Resources and Payroll Services Contract dated as of June 22, 2005 between the Secretary of State for Health for the United Kingdom and McKesson Information Solutions UK Limited.	10-Q	1-13252	10.1	August 1, 2005
10.26	Amended and Restated Receivables Purchase Agreement, dated as of June 11, 2004, among the Company, as servicer, CGSF Funding Corporation, as seller, the several conduit purchasers from time to time party to the Agreement, the several committed purchasers from time to time party to the Agreement, the several managing agents from time to time party to the Agreement, and Bank One, N.A. (Main Office Chicago), as collateral agent.	10-K	1-13252	10.20	May 13, 2005
10.27	Amended and Restated Credit Agreement, dated as of June 8, 2007 among the Company and McKesson Canada Corporation, collectively, the Borrowers, Bank of America, N.A., as Administrative Agent, Bank of America, N.A. (acting through its Canada branch), as Canadian Administrative Agent, JPMorgan Chase Bank and Wachovia Bank, National Association, as Co-Syndication Agents, Wachovia Bank, National Association, as L/C Issuer, The Bank of Nova Scotia and The Bank of Tokyo-Mitsubishi UFJ, LTD., Seattle branch, as Co-Documentation Agents, and The Other Lenders Party Hereto Banc of America Securities LLC, as sole lead arranger and sole book manager.	8-K	1-13252	10.1	June 14, 2007
10.28	Purchase Agreement, dated as of December 31, 2002, between McKesson Capital Corp. and General Electric Capital Corporation.	10-K	1-13252	10.41	June 6, 2003
10.29	Services Agreement, dated as of December 31, 2002, between McKesson Capital Corp. and General Electric Capital Corporation.	10-K	1-13252	10.42	June 6, 2003
10.30	Interim Credit Agreement, dated as of January 26, 2007, among the Company, Bank of America N.A., as Administrative Agent, Wachovia Bank, National Association, as Syndication Agent, the other Lenders party there to, and Banc of America Securities LLC and Wachovia Capital Markets, LLC, as Joint Lead Arrangers and Joint Book Managers.	8-K	1-13252	10.1	January 26, 2007
10.31*	Amended and Restated Employment Agreement, dated as of November 1, 2006, by and between the Company and its Chairman, President and Chief Executive Officer.	10-Q	1-13252	10.30	November 11, 2006
10.32*	Amended and Restated Employment Agreement, dated as of November 1, 2006, by and between the Company and its Executive Vice President and President, McKesson Technology Solutions.	10-Q	1-13252	10.31	January 30, 2007

McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
10.33*	Amended and Restated Employment Agreement, dated as of November 1, 2006, by and between the Company and its Executive Vice President and Group President.	10-Q	1-13252	10.32	January 30, 2007
10.34*	McKesson Corporation Change in Control Policy for Selected Executive Employees, effective as of November 1, 2006.	10-Q	1-13252	10.33	November 1, 2006
12 †	Computation of Ratio of Earnings to Fixed Charges.	-	-	-	-
21 †	List of Subsidiaries of the Registrant.	-	-	-	-
23 †	Consent of Independent Registered Public Accounting Firm, Deloitte & Touche LLP.	-	-	-	-
24 †	Power of Attorney.	-	-	-	-
31.1 †	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, and adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	-	-	-	-
31.2 †	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934 as amended, and adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	-	-	-	-
32 ††	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	-	-	-	-

* Management contract or compensation plan or arrangement in which directors and/or executive officers are eligible to participate.

† Filed herewith.

†† Furnished herewith.

††† Confidential treatment has been granted for certain portions of this exhibit and such confidential portions have been filed with the Commission.

Registrant agrees to furnish to the Commission upon request a copy of each instrument defining the rights of security holders with respect to issues of long-term debt of the Registrant, the authorized principal amount of which does not exceed 10% of the total assets of the Registrant.

McKESSON CORPORATION

INDEX TO CONSOLIDATED FINANCIAL INFORMATION

	<u>Page</u>
Five-Year Highlights	26
Financial Review	27
Management's Annual Report on Internal Control Over Financial Reporting	58
Report of Independent Registered Public Accounting Firm	59
Consolidated Financial Statements:	
Consolidated Statements of Operations for the years ended March 31, 2008, 2007 and 2006	60
Consolidated Balance Sheets as of March 31, 2008 and 2007	61
Consolidated Statements of Stockholders' Equity for the years ended March 31, 2008, 2007 and 2006	62
Consolidated Statements of Cash Flows for the years ended March 31, 2008, 2007 and 2006	63
Financial Notes	64

McKESSON CORPORATION

FIVE-YEAR HIGHLIGHTS

	As of and for the Years Ended March 31,				
(In millions, except per share amounts and ratios)	2008	2007	2006	2005	2004
Operating Results					
Revenues	\$ 101,703	\$ 92,977	\$ 86,983	\$ 79,096	\$ 67,993
Percent change	9.4%	6.9%	10.0%	16.3%	22.0%
Gross profit	5,009	4,332	3,777	3,342	3,107
Income (loss) from continuing operations before income taxes	1,457	1,297	1,171	(266)	869
Income (loss) after income taxes					
Continuing operations	989	968	745	(173)	621
Discontinued operations	1	(55)	6	16	26
Net income (loss)	990	913	751	(157)	647
Financial Position					
Working capital	2,438	2,730	3,527	3,658	3,706
Days sales outstanding for: ⁽¹⁾					
Customer receivables	22	21	22	23	25
Inventories	33	32	29	34	36
Drafts and accounts payable	44	43	41	40	40
Total assets	24,603	23,943	20,961	18,775	16,240
Total debt, including capital lease obligations	1,797	1,958	991	1,211	1,485
Stockholders' equity	6,121	6,273	5,907	5,275	5,165
Property acquisitions	195	126	166	135	110
Acquisitions of businesses, net	610	1,938	589	76	49
Common Share Information					
Common shares outstanding at year-end	277	295	304	299	290
Shares on which earnings (loss) per common share were based					
Diluted	298	305	316	294	299
Basic	291	298	306	294	290
Diluted earnings (loss) per common share ⁽²⁾					
Continuing operations	\$ 3.32	\$ 3.17	\$ 2.36	\$ (0.59)	\$ 2.10
Discontinued operations	-	(0.18)	0.02	0.06	0.09
Total	3.32	2.99	2.38	(0.53)	2.19
Cash dividends declared	70	72	74	71	70
Cash dividends declared per common share	0.24	0.24	0.24	0.24	0.24
Book value per common share ⁽³⁾	22.10	21.26	19.43	17.64	17.81
Market value per common share – year end	52.37	58.54	52.13	37.75	30.09
Supplemental Data					
Capital employed ⁽⁴⁾	7,918	8,231	6,898	6,486	6,650
Debt to capital ratio ⁽⁵⁾	22.7%	23.8%	14.4%	18.7%	22.3%
Net debt to net capital employed ⁽⁶⁾	6.6%	0.1%	(24.1)%	(12.6)%	13.1%
Average stockholders' equity ⁽⁷⁾	6,344	6,022	5,736	5,264	4,835
Return on stockholders' equity ⁽⁸⁾	15.6%	15.2%	13.1%	(3.0)%	13.4%

Footnotes to Five-Year Highlights:

- (1) Based on year-end balances and sales or cost of sales for the last 90 days of the year.
- (2) Certain computations may reflect rounding adjustments.
- (3) Represents stockholders' equity divided by year-end common shares outstanding.
- (4) Consists of total debt and stockholders' equity.
- (5) Ratio is computed as total debt divided by capital employed.
- (6) Ratio is computed as total debt, net of cash and cash equivalents ("net debt"), divided by net debt and stockholders' equity ("net capital employed").
- (7) Represents a five-quarter average of stockholders' equity.
- (8) Ratio is computed as net income (loss), divided by a five-quarter average of stockholders' equity.

McKESSON CORPORATION

FINANCIAL REVIEW

Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition

GENERAL

Management's discussion and analysis of results of operations and financial condition, referred to as the Financial Review, is intended to assist the reader in the understanding and assessment of significant changes and trends related to the results of operations and financial position of the Company together with its subsidiaries. This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying financial notes. The Company's fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references in this document to a particular year shall mean the Company's fiscal year.

In April 2007, we reconfigured our operating segments to better align product development and selling efforts with the evolving needs of the healthcare market, resulting in the following operating segments: Distribution Solutions and Technology Solutions. See Financial Note 21 to the accompanying consolidated financial statements, "Segments of Business," for a description of these segments. All periods presented have been reclassified to conform to the April 2007 changes in our organization.

RESULTS OF OPERATIONS

Overview:

	Years Ended March 31,		
	2008	2007	2006
<i>(In millions, except per share data)</i>			
Revenues	\$ 101,703	\$ 92,977	\$ 86,983
Securities Litigation pre-tax credits (charge), net	5	6	(45)
Income from Continuing Operations Before Income Taxes	\$ 1,457	\$ 1,297	\$ 1,171
Income Tax Provision	(468)	(329)	(426)
Income from Continuing Operations	989	968	745
Discontinued Operations, net	1	(55)	6
Net Income	\$ 990	\$ 913	\$ 751
Diluted Earnings Per Share			
Continuing Operations	\$ 3.32	\$ 3.17	\$ 2.36
Discontinued Operations	-	(0.18)	0.02
Total	\$ 3.32	\$ 2.99	\$ 2.38

Revenues increased 9% to \$101.7 billion and 7% to \$93.0 billion in 2008 and 2007. The increase in revenues primarily reflects market growth rates in our Distribution Solutions segment, which accounted for 97% of our consolidated revenues. Revenues for 2008 also benefited from our acquisitions of Oncology Therapeutics Network ("OTN") in October 2007 and Per-Se Technologies, Inc. ("Per-Se") in January 2007. Revenues for 2007 also benefited from our acquisition of D&K Healthcare Resources, Inc. ("D&K") in August 2005.

Gross profit increased 16% to \$5.0 billion in 2008 and 15% to \$4.3 billion in 2007. As a percentage of revenues, gross profit increased 27 basis points ("bp") to 4.93% in 2008 and 32 bp to 4.66% in 2007. The increase in our 2008 gross profit margin primarily reflects a greater proportion of higher margin Technology Solutions products and an improvement in our Distribution Solutions' segment margin. The increase in our 2007 gross profit margin primarily reflects improvement in our U.S. pharmaceutical distribution business, including a decrease in our receipt of antitrust class action lawsuits settlements. Our 2008, 2007 and 2006 gross profit includes the receipt of \$14 million, \$10 million and \$95 million of cash proceeds representing our share of settlements of antitrust class action lawsuits.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Operating expenses were \$3.5 billion, \$3.1 billion and \$2.7 billion in 2008, 2007 and 2006. Operating expenses increased 15% in 2008 and 16% in 2007 primarily reflecting additional operating expenses incurred to support our sales growth, expenses associated with our business acquisitions and higher employee compensation expenses including expenses for share-based compensation. Additionally, operating expenses for 2007 were impacted by a decrease in charges associated with our Securities Litigation. Operating expenses for 2008, 2007 and 2006 include pre-tax credits of \$5 million and \$6 million and pre-tax charges of \$45 million for our Securities Litigation.

Other income, net decreased in 2008 primarily reflecting a decrease in interest income due to lower cash balances and lower interest rates. Other income, net in 2007 approximated that of 2006.

Interest expense increased 43% to \$142 million in 2008 primarily reflecting the issuance of \$1.0 billion of long-term debt as part of our \$1.8 billion acquisition of Per-Se. Interest expense increased 5% to \$99 million in 2007.

Income from continuing operations before income taxes was \$1,457 million, \$1,297 million and \$1,171 million in 2008, 2007 and 2006, reflecting the above noted factors.

Our reported income tax rates were 32.1%, 25.4% and 36.4% in 2008, 2007 and 2006. Fluctuations in our reported income tax rates are primarily due to changes in income within states and foreign countries that have lower tax rates as well as other discrete tax events that occurred during the year. Additionally, in 2007, we recorded an \$83 million credit to our income tax provision relating to the reversal of income tax reserves related to uncertain tax matters surrounding our Consolidated Securities Litigation Action costs. The tax reserves were initially established in 2005 and were favorably resolved in 2007.

In 2007, results from discontinued operations were an after-tax loss of \$55 million or \$0.18 per diluted share, which included the divestiture of our Distribution Solutions segment's Acute Care medical-surgical supply business. This business was sold for net cash proceeds of \$160 million and resulted in an after-tax loss of \$66 million, which included a \$79 million non-tax deductible write-off of goodwill. Financial results for the Acute Care business have been reclassified as a discontinued operation for all periods presented. Results from discontinued operations for 2008 and 2006 were \$1 million and \$6 million after-tax, or nil and \$0.02 per diluted share.

Net income was \$990 million, \$913 million and \$751 million in 2008, 2007 and 2006 and diluted earnings per share was \$3.32, \$2.99 and \$2.38. Excluding the Securities Litigation charges or credit, net income would have been \$987 million, \$826 million and \$781 million in 2008, 2007 and 2006 and diluted earnings per share would have been \$3.31, \$2.71 and \$2.48 (see reconciliation on page 37).

Revenues:

<i>(In millions)</i>	Years Ended March 31,		
	2008	2007	2006
Distribution Solutions			
U.S. pharmaceutical direct distribution & services	\$ 60,436	\$ 54,127	\$ 51,730
U.S. pharmaceutical sales to customers' warehouses	27,668	27,555	25,462
Subtotal	88,104	81,682	77,192
Canada pharmaceutical distribution & services	8,106	6,692	5,910
Medical-Surgical distribution & services	2,509	2,364	2,037
Total Distribution Solutions	98,719	90,738	85,139
Technology Solutions			
Services	2,240	1,537	1,217
Software and software systems	591	536	476
Hardware	153	166	151
Total Technology Solutions	2,984	2,239	1,844
Total Revenues	\$ 101,703	\$ 92,977	\$ 86,983

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Revenues increased 9% to \$101.7 billion in 2008 and 7% to \$93.0 billion in 2007. The growth in revenues was primarily driven by our Distribution Solutions segment, which accounted for 97% of revenues.

U.S. pharmaceutical direct distribution and service revenues increased in 2008 primarily reflecting market growth rates, new and expanded business and to a lesser extent, due to our acquisition of OTN. During the third quarter of 2008, we acquired OTN, a U.S. distributor of specialty pharmaceuticals. In 2007, revenues increased primarily reflecting market growth rates, expanded business and to a lesser extent, due to our acquisition of D&K. These increases were partially offset by the loss of OTN as a customer. During the second quarter of 2006, we acquired D&K, a wholesale distributor of branded and generic pharmaceuticals and over-the-counter health and beauty products to independent and regional pharmacies, primarily in the Midwest. Market growth rates reflect growing drug utilization and price increases, which are offset in part by the increased use of lower priced generics.

U.S. pharmaceutical sales to customers' warehouses increased over the last two years primarily as a result of new and expanded agreements with customers. In 2008, these increases were partially offset by a customer's loss of a customer and reduced revenues associated with the consolidation of certain customers. Sales to retail customers' warehouses represent large volume sales of pharmaceuticals primarily to a limited number of large self-warehousing retail chain customers whereby we order bulk product from the manufacturer, receive and process the product through our central distribution facility and subsequently deliver the bulk product (generally in the same form as received from the manufacturer) directly to our customers' warehouses. This distribution method is typically not marketed or sold by the Company as a stand alone service; rather, it is offered as an additional distribution method for our large retail chain customers that have an internal self-warehousing distribution network. Sales to customers' warehouses provide a benefit to these customers because they can utilize the Company as one source for both their direct to-store business and their warehouse business. We have significantly lower gross profit margin on sales to customers' warehouses as we pass much of the efficiency of this low cost-to-serve model on to the customer. These sales do, however, contribute to our gross profit dollars.

The customer mix of our U.S. pharmaceutical distribution revenues was as follows:

	2008	2007	2006
Direct Sales			
Independents	13%	13%	12%
Institutions	30	29	32
Retail Chains	24	23	22
Subtotal	67	65	66
Sales to retail customers' warehouses	33	35	34
Total	100%	100%	100%

From 2006 to 2007, the percentage of total direct and warehouse revenue attributed to the Company's retail chain customers has grown faster than our other customer groups. This growth has resulted in a negative impact on the Company's gross profit margin as the retail chain customer group typically has lower gross profit margins as compared to our other customer groups. From 2007 to 2008, the percentage of total direct and warehouse revenue attributed to the Company's retail chain customers grew slower than our other customer groups. This decline resulted in a positive impact on the Company's gross profit margin. As previously described, a limited number of our large retail chain customers purchase products through both the Company's direct and warehouse distribution methods, the latter of which has significantly lower gross profit margin due to the low cost-to-serve model. When evaluating and pricing customer contracts, we do so based on our assessment of total customer profitability. As a result, we do not evaluate the Company's performance or allocate resources based on sales to customers' warehouses or gross profit associated with such sales.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Canadian pharmaceutical distribution revenues increased over the last two years primarily reflecting market growth rates and favorable foreign exchange rates. Additionally in 2008, these revenues benefited from new and expanded business, partially offset by six fewer days of sales compared to 2007. Canadian revenues benefited from a 12%, 5% and 7% foreign currency impact in 2008, 2007 and 2006.

Medical-Surgical distribution and services revenues increased in 2008 primarily reflecting market growth rates and an acquisition, partially offset by the discontinuance of the distribution of a product line. Revenues associated with this product line are now recorded by our U.S. pharmaceutical distribution business. In 2008, these revenues were partially offset by one less week of sales compared to 2007. In 2007, revenues increased primarily reflecting stronger than average market growth rates and due to the acquisition of Sterling Medical Services LLC (“Sterling”) during the first quarter of 2007. Sterling is a national provider and distributor of disposable medical supplies, health management services and quality management programs to the home care market.

Technology Solutions revenues increased in 2008 primarily due to the acquisition of Per-Se and increased services revenues, primarily reflecting the segment’s expanded customer bases and clinical software implementations. During the fourth quarter of 2007, we acquired Per-Se, a leading provider of financial and administrative healthcare solutions for hospitals, physicians and retail pharmacies. In 2007, revenues for this segment benefited from increased clinical software implementations and to a lesser extent, our acquisition of Per-Se.

Gross Profit:

<i>(Dollars in millions)</i>	Years Ended March 31,		
	2008	2007	2006
Gross Profit			
Distribution Solutions	\$ 3,586	\$ 3,252	\$ 2,883
Technology Solutions	1,423	1,080	894
Total	<u>\$ 5,009</u>	<u>\$ 4,332</u>	<u>\$ 3,777</u>
Gross Profit Margin			
Distribution Solutions	3.63%	3.58%	3.39%
Technology Solutions	47.69	48.24	48.48
Total	<u>4.93</u>	<u>4.66</u>	<u>4.34</u>

Gross profit increased 16% to \$5.0 billion in 2008 and 15% to \$4.3 billion in 2007. As a percentage of revenues, gross profit increased 27 bp in 2008 and 32 bp in 2007. Gross profit margin increased in 2008 primarily reflecting a greater proportion of higher margin Technology Solutions products and an improvement in our Distribution Solutions segment’s margin. Gross profit margin increased in 2007 primarily due to an increase in our Distribution Solutions segment’s gross profit margin.

In 2008, our Distribution Solutions segment’s gross profit margin increased slightly from that of the prior year. Gross profit margin was impacted by higher buy side margins, the benefit of increased sales of generic drugs with higher margins, a decline in impairment charges associated with the write-down of certain abandoned assets within our retail automation group and an increase associated with a smaller proportion of revenues within the segment attributed to sales to customers’ warehouses. These increases were partially offset by a decline in sell margin and last-in, first-out (“LIFO”) inventory credits (\$14 million in 2008 compared with \$64 million in 2007).

For each of the last three years, we estimate that the Company’s total gross profit margin on sales to customers’ warehouses represented about 5% of the segment’s total gross profit dollars. As previously discussed, from 2006 to 2007 the percentage of total direct and warehouse revenue attributed to our retail chain customers grew faster than our other customer groups. This change resulted in a negative impact on the Company’s gross profit margin as this customer group typically has lower margins as compared to our other customer groups. From 2007 to 2008, the percentage of total direct and warehouse revenue attributed to our retail chain customers grew slower than our other customer groups. This decline resulted in a positive impact on the Company’s gross profit margin.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Our Distribution Solutions segment uses the LIFO method of accounting for the majority of its inventories, which results in cost of sales that more closely reflects replacement cost than do other accounting methods, thereby mitigating the effects of inflation and deflation on operating profit. The practice in the Distribution Solutions' distribution businesses is to pass on to customers published price changes from suppliers. Manufacturers generally provide us with price protection, which limits price-related inventory losses. Price declines on many generic pharmaceutical products in this segment over the last few years have moderated the effects of inflation in other product categories, which resulted in minimal overall price changes in those years. Additional information regarding our LIFO accounting is included under the caption "Critical Accounting Policies" included in this Financial Review.

In 2007, our Distribution Solutions segment's gross profit margin increased compared to the prior year. Gross profit margin was impacted by higher buy side margins, the benefit of increased sales of generic drugs with higher margins and an increase in LIFO inventory credits (\$64 million in 2007 compared with \$32 million in 2006). In addition, gross profit margin benefited from a relatively stable sell side margin. Partially offsetting these increases was a decrease associated with antitrust settlements (\$10 million in 2007 compared with \$95 million in 2006), \$15 million of impairment charges associated with the write-down of certain abandoned assets within our retail automation group and a decrease associated with a larger proportion of revenues within the segment attributed to sales to customers' warehouses.

During the first quarter of 2007, we contributed \$36 million in cash and \$45 million in net assets primarily from our Automated Prescription Systems business to Parata Systems, LLC ("Parata"), in exchange for a significant minority interest in Parata. Parata is a manufacturer of pharmacy robotic equipment. In connection with the investment, we abandoned certain assets which resulted in a \$15 million charge to cost of sales and we incurred \$6 million of other expenses related to the transaction which were recorded within operating expenses. We did not recognize any additional gains or losses as a result of this transaction as we believe the fair value of our investment in Parata approximates the carrying value of consideration contributed to Parata. Our investment in Parata is accounted for under the equity method of accounting within our Distribution Solutions segment.

Technology Solutions segment's gross profit margin decreased primarily reflecting a change in product mix. In 2008, this segment's product mix included a higher proportion of lower margin Per-Se service revenues. Partially offsetting this decrease, 2008 gross profit margin was positively impacted by the recognition of \$21 million of disease management deferred revenues for a contract for which expenses associated with these revenues were previously recognized as incurred.

Operating Expenses:

<i>(Dollars in millions)</i>	Years Ended March 31,		
	2008	2007	2006
Operating Expenses			
Distribution Solutions	\$ 2,138	\$ 1,896	\$ 1,673
Technology Solutions	1,115	884	720
Corporate	283	294	213
Subtotal	3,536	3,074	2,606
Securities Litigation (credits) charge, net	(5)	(6)	45
Total	\$ 3,531	\$ 3,068	\$ 2,651
Operating Expenses as a Percentage of Revenues			
Distribution Solutions	2.17%	2.09%	1.97%
Technology Solutions	37.37	39.48	39.05
Total	3.47	3.30	3.05

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Operating expenses increased 15% to \$3.5 billion in 2008 and 16% to \$3.1 billion in 2007. Operating expenses for 2008, 2007 and 2006 include pre-tax credits of \$5 million and \$6 million and a pre-tax charge of \$45 million for our Securities Litigation. Excluding the impact of our Securities Litigation, operating expenses increased 15% and 18% in 2008 and 2007. Operating expenses as a percentage of revenues increased 17 bp to 3.47% in 2008 and 25 bp to 3.30% in 2007 (or 17 bp and 31 bp in 2008 and 2007, excluding the impact of our Securities Litigation). Excluding the Securities Litigation credits, increases in operating expenses primarily reflect additional operating expenses incurred to support our sales growth, expenses associated with our business acquisitions, and higher employee compensation expenses including expenses for share-based compensation, research and development expenses, foreign currency exchange rates and higher bad debt expense.

Operating expenses included the following significant items:

2008

- \$91 million of share-based compensation expense or \$31 million more than the previous year. On April 1, 2006, we adopted Statement of Financial Accounting Standards (“SFAS”) No. 123(R), “Share-Based Payment,” which requires the recognition of expense resulting from transactions in which we acquire goods and services by issuing our shares, share options or other equity instruments. The incremental compensation expense was recorded as follows: \$9 million and \$16 million in our Distribution Solutions and Technology Solutions segments, and \$6 million in Corporate expenses,

Due to the accelerated vesting of share-based awards prior to 2007, we anticipate the impact of SFAS No. 123(R) to increase in significance as future awards of share-based compensation are granted and amortized over the requisite service period. Share-based compensation charges are affected by our stock price as well as assumptions regarding a number of complex and subjective variables and the related tax impact. These variables include, but are not limited to, the volatility of our stock price, employee stock option exercise behavior, timing, level and types of our grants of annual share-based awards, the attainment of performance goals and actual forfeiture rates. As a result, the actual future share-based compensation expense may differ from historical levels of expense. Information regarding our share based payments is included in Financial Note 19 to the consolidated financial statements, “Share-Based Payment,” appearing in this Annual Report on Form 10-K,

- \$14 million of restructuring charges primarily associated with the abandonment of a Technology Solutions software project, the closure of two Distribution Solutions’ segment distribution centers and the integration of OTN. An additional \$5 million of these expenses were recorded to cost of sales. Information regarding our restructuring activities is included in Financial Note 4 to the consolidated financial statements, “Restructuring Activities,” appearing in this Annual Report on Form 10-K,
- \$13 million increase in a legal reserve. During the third quarter of 2008, we engaged in discussions with a governmental agency to settle claims arising out of an inquiry. As a result of these settlement discussions, we recorded an increase in a legal reserve of \$13 million within our Distributions Solutions segment. These claims were settled in May 2008 consistent with this reserve. This reserve is not tax deductible, and
- \$8 million of severance expense associated with the realignment of our Technology Solutions workforce. An additional \$2 million of severance expense was recorded to cost of sales. Although such actions do not constitute a restructuring plan, they represent independent actions taken from time to time, as appropriate.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

2007

- \$60 million of share-based compensation expense, or \$44 million more than the previous year. The incremental compensation expense was recorded as follows: \$13 million and \$18 million in our Distribution Solutions and Technology Solutions segments, and \$13 million in Corporate expenses,
- \$15 million of severance restructuring expense primarily to reallocate product development and marketing resources and to realign one of the international businesses within our Technology Solutions segment, and
- an \$11 million credit to our Distribution Solution's operating expenses due to a favorable adjustment to a legal reserve.

2006

- a \$45 million net charge for our Securities Litigation and a decrease in legal expenses associated with the litigation which were both recorded in Corporate expenses, and
- a \$15 million credit to our Distribution Solutions' bad debt expense due to a recovery of a previously reserved customer account.

Other Income, net:

(In millions)	Years Ended March 31,		
	2008	2007	2006
By Segment			
Distribution Solutions	\$ 35	\$ 39	\$ 40
Technology Solutions	11	10	13
Corporate	75	83	86
Total	\$ 121	\$ 132	\$ 139

Other income, net decreased in 2008 primarily reflecting a decrease in interest income due to lower cash balances and lower interest rates. Other income, net in 2007 approximated that of 2006. Interest income, which is primarily recorded in Corporate expenses, was \$89 million, \$103 million and \$105 million in 2008, 2007 and 2006.

Segment Operating Profit and Corporate Expenses:

(Dollars in millions)	Years Ended March 31,		
	2008	2007	2006
Segment Operating Profit			
Distribution Solutions	\$ 1,483	\$ 1,395	\$ 1,250
Technology Solutions	319	206	187
Subtotal	1,802	1,601	1,437
Corporate Expenses, net	(208)	(211)	(127)
Securities Litigation credit (charge), net	5	6	(45)
Interest Expense	(142)	(99)	(94)
Income from Continuing Operations Before Income Taxes	\$ 1,457	\$ 1,297	\$ 1,171
Segment Operating Profit Margin			
Distribution Solutions	1.50%	1.54%	1.47%
Technology Solutions	10.69	9.20	10.14

Segment operating profit includes gross margin, net of operating expenses, and other income for our two operating segments. Operating profit increased in 2008 primarily reflecting revenue growth and improved operating profit in both of our segments and for 2007, primarily reflecting revenue growth and improved operating profit in our Distribution Solutions segment.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Operating profit as a percentage of revenues in our Distribution Solutions segment decreased slightly in 2008 primarily reflecting higher operating expenses as a percentage of revenues, partially offset by improved gross profit margin. Operating expenses increased in both dollars and as a percentage of revenues primarily due to a \$13 million increase in a legal reserve, our acquisition of OTN, which has a higher ratio of operating expenses as a percentage of revenues and, to a lesser extent, an increase in share-based compensation. Increases in operating expenses were also due to additional costs incurred to support our sales volume growth. Share-based compensation expense for this segment was \$26 million and \$17 million for 2008 and 2007.

Operating profit as a percentage of revenues in our Distribution Solutions segment increased in 2007 primarily reflecting an increase in gross profit margin, offset in part by an increase in operating expenses as a percentage of revenues. Operating expenses increased in both dollars and as a percentage of revenues primarily due to additional compensation expense, our acquisition of D&K which had a higher ratio of operating expenses as a percentage of revenues, an increase in bad debt expense and, to a lesser extent, due to an increase in share-based compensation. These increases were partially offset by an \$11 million credit to operating expense due to an adjustment to a legal reserve. Increases in operating expenses were also due to additional costs incurred to support our sales volume growth. In 2006, operating profit benefited from a \$15 million credit to bad debt expense due to a recovery on a previously reserved customer account. Share-based compensation expense for this segment was \$17 million and \$4 million for 2007 and 2006.

Operating profit as a percentage of revenues in our Technology Solutions segment increased during 2008 primarily due to a decrease in operating expenses as a percentage of revenues partially offset by a decrease in gross profit margin. Operating expenses as a percentage of revenues were favorably impacted by the acquisition of Per-Se which has a lower ratio of operating expenses as a percentage of revenues. This decrease was partially offset by an increase in share-based compensation and bad debt expense. Operating expenses increased primarily due to business acquisitions, including Per-Se, investments in research and development activities and additional share-based compensation. Share-based compensation expense for this segment was \$35 million and \$19 million for 2008 and 2007.

Operating profit as a percentage of revenues in our Technology Solutions segment decreased during 2007 primarily due to a decrease in gross profit margin as well as an increase in operating expenses as a percentage of revenues. Operating expenses increased in both dollars and as a percentage of revenues primarily reflecting additional compensation expense, including share-based compensation, severance charges incurred to reallocate product development and marketing resources and to realign one of the segment's international businesses and investments in research and development activities. Share-based compensation expense for this segment was \$19 million and \$1 million for 2007 and 2006.

Corporate expenses, net of other income, decreased in 2008 and increased in 2007. Corporate expenses, net of other income, reflect additional costs incurred to support various initiatives and our revenue growth, an increase in share-based compensation and a decrease in interest income. For 2008, these increases were fully offset by a decrease in legal expenses associated with our Securities Litigation, a decrease in charitable contributions and a decrease in other long-term compensation. Legal expenses associated with our Securities Litigation declined in 2007; however, other legal costs offset this benefit. Legal expenses associated with our Securities Litigation were \$4 million, \$19 million and \$27 million in 2008, 2007 and 2006. Share-based compensation expense for Corporate was \$30 million, \$24 million and \$11 million in 2008, 2007 and 2006.

Securities Litigation Credit/(Charge), Net: We recorded net credits of \$5 million and \$6 million in 2008 and 2007 and net charges of \$45 million in 2006 relating to various settlements for our Securities Litigation. Recent developments pertaining to our Securities Litigation are described in Financial Note 17, "Other Commitments and Contingent Liabilities," to the accompanying consolidated financial statements.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Interest Expense: Interest expense increased in the last two years primarily due to \$1.0 billion of long-term debt issued in the fourth quarter of 2007 to fund our acquisition of Per-Se. Refer to our discussion under the caption “Credit Resources” within this Financial Review for additional information regarding our financing for the Per-Se acquisition.

Income Taxes: Our reported tax rates were 32.1%, 25.4% and 36.4% in 2008, 2007 and 2006. In addition to the items noted below, fluctuations in our reported tax rate are primarily due to changes within state and foreign tax rates resulting from our business mix, including varying proportions of income attributable to foreign countries that have lower income tax rates.

In 2008, the U.S. Internal Revenue Service (“IRS”) completed an examination of our consolidated income tax returns for 2000 to 2002 resulting in a signed Revenue Agent Report (“RAR”), which was approved by the Joint Committee on Taxation during the third quarter. The IRS and the Company have agreed to certain adjustments, primarily related to transfer pricing and income tax credits. As a result of the approved RAR, we recognized approximately \$25 million of net federal and state income tax benefits. We are in the process of amending state income tax returns for 2000 to 2002 to reflect the IRS settlement. We recorded the anticipated state tax impact of the IRS examination in our 2008 income tax provision and do not anticipate any material impact when the final amended state tax returns have been completed. In Canada, we received an assessment from the Canada Revenue Agency for a total of \$9 million related to transfer pricing for 2003. We plan to further pursue this issue and will appeal the assessment. We believe we have adequately provided for any potential adverse results for 2003 and future years. During 2008, we have also favorably concluded various foreign examinations, which resulted in the recognition of approximately \$4 million of income tax benefits. In nearly all jurisdictions, the tax years prior to 1999 are no longer subject to examination. We believe that we have made adequate provision for all remaining income tax uncertainties. Income tax expense for 2008 was also impacted by a non-tax deductible \$13 million increase in a legal reserve.

In 2007, we recorded a credit to current income tax expense of \$83 million, which primarily pertained to our receipt of a private letter ruling from the IRS holding that our payment of approximately \$960 million to settle our Consolidated Securities Litigation Action (refer to Financial Note 17, “Other Commitments and Contingent Liabilities” of the accompanying consolidated financial statements) is fully tax-deductible. We previously established tax reserves to reflect the lack of certainty regarding the tax deductibility of settlement amounts paid in the Consolidated Securities Litigation Action and related litigation. In 2007, we also recorded \$24 million in income tax benefits arising primarily from settlements and adjustments with various taxing authorities and research and development investment tax credits from our Canadian operations.

In 2006, we made a \$960 million payment into an escrow account relating to the Consolidated Securities Litigation Action. This payment was deducted in our 2006 income tax returns and as a result, our current tax expense decreased and our deferred tax expense increased in 2006 primarily reflecting the utilization of the deferred tax assets associated with the Consolidated Securities Litigation Action. In 2006, we also recorded a \$14 million income tax expense, which primarily related to a basis adjustment in an investment and adjustments with various taxing authorities.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Discontinued Operations:

Results from discontinued operations were as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2008	2007	2006
Income (loss) from discontinued operations			
Acute Care	\$ 1	\$ (9)	\$ (13)
BioServices	-	-	2
Other	1	-	-
Income taxes	(1)	4	4
Total	<u>\$ 1</u>	<u>\$ (5)</u>	<u>\$ (7)</u>
Gain (loss) on sales of discontinued operations			
Acute Care	\$ -	\$ (49)	\$ -
BioServices	-	-	22
Other	-	10	-
Income taxes	-	(11)	(9)
Total	<u>\$ -</u>	<u>\$ (50)</u>	<u>\$ 13</u>
Discontinued operations, net of taxes			
Acute Care	\$ 1	\$ (66)	\$ (8)
BioServices	-	-	14
Other	-	11	-
Total	<u>\$ 1</u>	<u>\$ (55)</u>	<u>\$ 6</u>

In the second quarter of 2007, we sold our Distribution Solutions segment's Medical-Surgical Acute Care business to Owens & Minor, Inc. ("OMI") for net cash proceeds of approximately \$160 million. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the financial results of this business are classified as a discontinued operation for all periods presented in the accompanying consolidated financial statements. Revenues associated with the Acute Care business prior to its disposition were \$1,062 million for 2006 and \$597 million for the first half of 2007.

Financial results for 2007 for this discontinued operation include an after-tax loss of \$66 million, which primarily consists of an after-tax loss of \$61 million for the business' disposition and \$5 million of after-tax losses associated with operations, other asset impairment charges and employee severance costs. The after-tax loss of \$61 million for the business' disposition includes a \$79 million non-tax deductible write-off of goodwill, as further described below.

In connection with the divestiture, we allocated a portion of our Distribution Solutions Medical-Surgical business' goodwill to the Acute Care supply business as required by SFAS No. 142, "Goodwill and Other Intangible Assets." The allocation was based on the relative fair values of the Acute Care business and the continuing businesses that are being retained by the Company. The fair value of the Acute Care business was determined based on the net cash proceeds resulting from the divestiture and the fair value of the continuing businesses. As a result, we allocated \$79 million of the segment's goodwill to the Acute Care business.

Additionally, as part of the divestiture, we entered into a transition services agreement ("TSA") with OMI under which we provided certain services to the Acute Care business during a transition period of approximately six months. Financial results from the TSA, as well as employee severance charges over the transition period, were recorded as part of discontinued operations. The continuing cash flows generated from the TSA were not material to our consolidated financial statements and the TSA was completed as of March 31, 2007.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

In 2005, our Acute Care business entered into an agreement with a third party vendor to sell the vendor's proprietary software and services. The terms of the contract required us to prepay certain royalties. During the third quarter of 2006, we ended marketing and sale of the software under the contract. As a result of this decision, we recorded a \$15 million pre-tax charge in the third quarter of 2006 to write-off the remaining balance of the prepaid royalties.

In the second quarter of 2007, we also sold a wholly-owned subsidiary, Pharmaceutical Buyers Inc., for net cash proceeds of \$10 million. The divestiture resulted in an after-tax gain of \$5 million resulting from the tax basis of the subsidiary exceeding its carrying value. The gain on disposition was also recorded in the second quarter of 2007. Financial results for this business, which were previously included in our Distribution Solutions segment, were not material to our consolidated financial statements.

The results for discontinued operations for 2007 also include an after-tax gain of \$6 million associated with the collection of a note receivable from a business sold in 2003 and the sale of a small business.

In the second quarter of 2006, we sold our wholly-owned subsidiary, McKesson BioServices Corporation ("BioServices"), for net cash proceeds of \$63 million. The divestiture resulted in an after-tax gain of \$13 million. Financial results for this business, which were previously included in our Distribution Solutions segment, were not material to our consolidated financial statements.

In accordance with SFAS No. 144, financial results for these businesses have been classified as discontinued operations for all periods presented.

Net Income: Net income was \$990 million, \$913 million and \$751 million in 2008, 2007 and 2006 and diluted earnings per share was \$3.32, \$2.99 and \$2.38. Excluding the Securities Litigation credits or charges, 2008 net income and net income per diluted share would have been \$987 million and \$3.31, for 2007, \$826 million and \$2.71, and for 2006, \$781 million and \$2.48.

A reconciliation between our net income per share reported under accounting standards generally accepted in the United States ("GAAP") and our earnings per diluted share, excluding charges for the Securities Litigation is as follows:

<i>(In millions except per share amounts)</i>	Years Ended March 31,		
	2008	2007	2006
Net income, as reported	\$ 990	\$ 913	\$ 751
Exclude:			
Securities Litigation charge (credit), net	(5)	(6)	45
Estimated income tax expense (benefit)	2	2	(15)
Income tax reserve reversal	-	(83)	-
Securities Litigation charge (credit), net of tax	(3)	(87)	30
Net income, excluding Securities Litigation charge	\$ 987	\$ 826	\$ 781
Diluted earnings per common share, excluding Securities Litigation charge ⁽¹⁾	\$ 3.31	\$ 2.71	\$ 2.48
Shares on which diluted earnings per common share, excluding the Securities Litigation charge, were based	298	305	316

- (1) For 2006, interest expense, net of related income taxes, of \$1 million has been added to net income, excluding the Securities Litigation charges, for purpose of calculating diluted earnings per share. This calculation also includes the impact of dilutive securities (stock options, convertible junior subordinated debentures and restricted stock).

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

These pro forma amounts are non-GAAP financial measures. We use these measures internally and consider these results to be useful to investors as they provide relevant benchmarks of core operating performance.

Weighted Average Diluted Shares Outstanding: Diluted earnings per share was calculated based on a weighted average number of shares outstanding of 298 million, 305 million and 316 million for 2008, 2007 and 2006. The decrease in the number of weighted average diluted shares outstanding over the past two years primarily reflects stock repurchased, partially offset by exercised stock options.

International Operations

International operations accounted for 8.2%, 7.5% and 7.0% of 2008, 2007 and 2006 consolidated revenues. International operations are subject to certain risks, including currency fluctuations. We monitor our operations and adopt strategies responsive to changes in the economic and political environment in each of the countries in which we operate. Additional information regarding our international operations is also included in Financial Note 21, “Segments of Business” to the accompanying consolidated financial statements.

Acquisitions and Investments

In April 2008, we entered into an agreement to acquire McQueary Brothers Drug Company, Inc. (“McQueary Brothers”), of Springfield, Missouri for approximately \$190 million. McQueary Brothers is a regional distributor of pharmaceutical, health, and beauty products to independent and regional chain pharmacies in the Midwestern U.S. This acquisition will expand our existing U.S. pharmaceutical distribution business. The acquisition is expected to close in the first quarter of 2009, subject to customary closing conditions including regulatory review and will be funded with cash on hand. When completed, financial results for McQueary Brothers will be included within our Distribution Solutions segment.

In 2008, we made the following acquisition:

- On October 29, 2007, we acquired all of the outstanding shares of OTN of San Francisco, California for approximately \$531 million, including the assumption of debt and net of \$31 million of cash acquired from OTN. OTN is a U.S. distributor of specialty pharmaceuticals. The acquisition of OTN expanded our existing specialty pharmaceutical distribution business. The acquisition was funded with cash on hand. Financial results for OTN are included within our Distribution Solutions segment. Approximately \$257 million of the preliminary purchase price allocation has been assigned to goodwill. Included in the purchase price allocation are acquired identifiable intangibles of \$119 million representing customer relationships with a weighted-average life of 9 years, developed technology of \$3 million with a weighted-average life of 4 years and trademarks and trade names of \$7 million with a weighted-average life of 5 years.

In 2007, we made the following acquisitions and investment:

- On January 26, 2007, we acquired all of the outstanding shares of Per-Se of Alpharetta, Georgia for \$28.00 per share in cash plus the assumption of Per-Se’s debt, or approximately \$1.8 billion in aggregate, including cash acquired of \$76 million. Per-Se is a leading provider of financial and administrative healthcare solutions for hospitals, physicians and retail pharmacies. The acquisition of Per-Se is consistent with the Company’s strategy of providing products that help solve clinical, financial and business processes within the healthcare industry. The acquisition was initially funded with cash on hand and through the use of an interim credit facility. In March 2007, we issued \$1 billion of long-term debt, with such net proceeds after offering expenses from the issuance, together with cash on hand, being used to fully repay borrowings outstanding under the interim credit facility (refer to Financial Note 10, “Long-Term Debt and Other Financing” to the accompanying consolidated financial statements). Financial results for Per-Se are primarily included within our Technology Solutions segment.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Approximately \$1,258 million of the purchase price allocation has been assigned to goodwill. Included in the purchase price allocation are acquired identifiable intangibles of \$402 million representing customer relationships with a weighted-average life of 10 years, developed technology of \$56 million with a weighted-average life of 5 years, and trademark and trade names of \$13 million with a weighted-average life of 5 years.

In connection with the purchase price allocation, we have estimated the fair value of the support obligations assumed from Per-Se in connection with the acquisition. The estimated fair value of these obligations was determined utilizing a cost build-up approach. The cost build-up approach determines fair value by estimating the costs relating to fulfilling the obligations plus a normal profit margin. The sum of the costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume these obligations. As a result, in allocating the purchase price, we recorded an adjustment to reduce the carrying value of Per-Se's deferred revenue by \$17 million to \$30 million, which represents our estimate of the fair value of the obligation assumed.

- Our Technology Solutions segment acquired RelayHealth Corporation (“RelayHealth”) based in Emeryville, California. RelayHealth is a provider of secure online healthcare communication services linking patients, healthcare professionals, payors and pharmacies. This segment also acquired two other entities, one specializing in patient billing solutions designed to simplify and enhance healthcare providers’ financial interactions with their patients and the other a provider of integrated software for electronic health records, medical billing and appointment scheduling for independent physician practices. The total cost of these three entities was \$90 million, which was paid in cash. Goodwill recognized in these transactions amounted to \$63 million.
- Our Distribution Solutions segment acquired Sterling, which is based in Moorestown, New Jersey. Sterling is a national provider and distributor of disposable medical supplies, health management services and quality management programs to the home care market. This segment also acquired a medical supply sourcing agent. The total cost of these two entities was \$95 million, which was paid in cash. Goodwill recognized in these transactions amounted to \$47 million.
- We contributed \$36 million in cash and \$45 million in net assets primarily from our Automated Prescription Systems business to Parata, in exchange for a significant minority interest in Parata. Parata is a manufacturer of pharmacy robotic equipment. In connection with the investment, we abandoned certain assets which resulted in a \$15 million charge to cost of sales and we incurred \$6 million of other expenses related to the transaction which were recorded within operating expenses. We did not recognize any additional gains or losses as a result of this transaction as we believe the fair value of our investment in Parata approximates the carrying value of consideration contributed to Parata. Our investment in Parata is accounted for under the equity method of accounting within our Distribution Solutions segment.

In 2006, we made the following acquisitions:

- We acquired substantially all of the issued and outstanding stock of D&K of St. Louis, Missouri for an aggregate cash purchase price of \$479 million, including the assumption of D&K's debt. D&K is primarily a wholesale distributor of branded and generic pharmaceuticals and over-the-counter health and beauty products to independent and regional pharmacies, primarily in the Midwest. The acquisition of D&K expanded our existing U.S. pharmaceutical distribution business. Approximately \$158 million of the purchase price was assigned to goodwill. Included in the purchase price were acquired identifiable intangibles of \$43 million primarily representing customer lists and not-to-compete covenants which have an estimated weighted-average useful life of nine years. Financial results for D&K are included within our Distribution Solutions segment.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

- We acquired all of the issued and outstanding shares of Medcon Ltd., (“Medcon”), an Israeli company, for an aggregate purchase price of \$82 million. Medcon provides web-based cardiac image and information management services to healthcare providers. Approximately \$60 million of the purchase price was assigned to goodwill and \$20 million was assigned to intangibles which represent technology assets and customer lists which have an estimated weighted-average useful life of four years. Financial results for Medcon are included within our Technology Solutions segment.

During the last three years, we also completed a number of other smaller acquisitions and investments within both of our operating segments. Financial results for our business acquisitions have been included in our consolidated financial statements since their respective acquisition dates. Purchase prices for our business acquisitions have been allocated based on estimated fair values at the date of acquisition and, for certain recent acquisitions, may be subject to change as we continue to evaluate and implement various restructuring initiatives. Goodwill recognized for our business acquisitions is not expected to be deductible for tax purposes. Pro forma results of operations for our business acquisitions have not been presented because the effects were not material to the consolidated financial statements on either an individual or an aggregate basis. Refer to Financial Note 2, “Acquisitions and Investments,” to the accompanying consolidated financial statements for further discussions regarding our acquisitions and investing activities.

2009 Outlook

Information regarding the Company’s 2009 outlook is contained in our Form 8-K dated May 5, 2008. This Form 8-K should be read in conjunction with the sections “Factors Affecting Forward-looking Statements” and “Additional Factors That May Affect Future Results” included in this Financial Review.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We consider an accounting estimate to be critical if the estimate requires us to make assumptions about matters that were uncertain at the time the accounting estimate was made and if different estimates that we reasonably could have used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on our financial condition or results from operations. Below are the estimates that we believe are critical to the understanding of our operating results and financial condition. Other accounting policies are described in Financial Note 1, “Significant Accounting Policies,” to the accompanying consolidated financial statements. Because of the uncertainty inherent in such estimates, actual results may differ from these estimates.

Allowance for Doubtful Accounts: We provide short-term credit and other customer financing arrangements to customers who purchase our products and services. Other customer financing primarily relates to guarantees provided to our customers, or their creditors, regarding the repurchase of inventories. We estimate the receivables for which we do not expect full collection based on historical collection rates and specific knowledge regarding the current creditworthiness of our customers. An allowance is recorded in our consolidated financial statements for these amounts.

In determining the appropriate allowance for doubtful accounts, which includes portfolio and specific reserves, the Company reviews accounts receivable aging, industry trends, customer financial strength, credit standing, historical write-off trends and payment history to assess the probability of collection. If the frequency and severity of customer defaults due to our customers’ financial condition or general economic conditions change, our allowance for uncollectible accounts may require adjustment. As a result, we continuously monitor outstanding receivables and other customer financing and adjust allowances for accounts where collection may be in doubt. At March 31, 2008, revenues and accounts receivable from our ten largest customers accounted for approximately 53% of consolidated revenues and approximately 43% of accounts receivable. At March 31, 2008, revenues and accounts receivable from our two largest customers, CVS Caremark Corporation (“Caremark”) and Rite Aid Corporation (“Rite Aid”), represented approximately 14% and 13% of total consolidated revenues and 12% and 11% of accounts receivable. As a result, our sales and credit concentration is significant. Any defaults in payment or a material reduction in purchases from this or any other large customer could have a significant negative impact on our financial condition, results of operations and liquidity.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Reserve methodologies are assessed annually based on historical losses and economic, business and market trends. In addition, reserves are reviewed quarterly and updated if unusual circumstances or trends are present. We believe the reserves maintained and expenses recorded in 2008 are appropriate and consistent with historical methodologies employed. At this time, we are not aware of any internal process or customer issues that might lead to a significant future increase in our allowance for doubtful accounts as a percentage of net revenue.

At March 31, 2008, trade and notes receivables were \$6,536 million, and other customer financing was \$120 million, prior to allowances of \$163 million. In 2008, 2007 and 2006 our provision for bad debts was \$41 million, \$24 million and \$26 million. At March 31, 2008 and 2007, the allowance as a percentage of trade and notes receivables was 2.5% and 2.6%. An increase or decrease of 0.1% in the 2008 allowance as a percentage of trade and notes receivables would result in an increase or decrease in the provision on receivables of approximately \$7 million. Additional information concerning our allowance for doubtful accounts may be found in Schedule II included this Annual Report on Form 10-K.

Inventories: Inventories for our Distribution Solutions segment consist of merchandise held for resale. For our Distribution Solutions segment, the majority of the cost of domestic inventories was determined on the LIFO method and international inventories are stated using the first-in, first-out (“FIFO”) method. Technology Solutions’ inventories consist of computer hardware with cost determined by the standard cost method. Total inventories were \$9.0 billion and \$8.2 billion at March 31, 2008 and 2007.

The LIFO method was used to value approximately 88% of our inventories at March 31, 2008 and 2007. At March 31, 2008 and 2007, our LIFO reserves were \$34 million and \$92 million. LIFO reserves include both pharmaceutical and non-pharmaceutical products. In 2008, 2007 and 2006, we recognized \$14 million, \$64 million and \$32 million of LIFO credits within our statements of operations. LIFO adjustments generally represent the net effect of the amount of price increases on branded pharmaceutical products held in inventory offset by price declines on generic pharmaceutical products, including the price decrease effect of branded pharmaceutical products that have lost patent protection. A LIFO benefit implies that the price declines on generic pharmaceutical products, including the effect of branded pharmaceuticals that have lost patent protection, exceeded the effect of price increases on branded pharmaceutical products held in inventory.

Our policy is to record inventories at the lower of cost or market (“LCM”). We believe that the FIFO inventory costing method provides a reasonable estimation of the current cost of replacing inventory (i.e., “market”). As such, our LIFO inventory is valued at the lower of LIFO, or inventory as valued under FIFO. Primarily due to continued deflation in generic pharmaceutical inventories, pharmaceutical inventories at LIFO were \$43 million higher than FIFO as of March 31, 2008. As a result, we recorded a \$43 million LCM reserve in 2008 to adjust our LIFO inventories to market. As deflation in generic pharmaceuticals continues, we anticipate that LIFO benefits on our pharmaceutical products will be fully offset by a LCM reserve.

In determining whether inventory valuation issues exist, we consider various factors including estimated quantities of slow-moving inventory by reviewing on-hand quantities, outstanding purchase obligations and forecasted sales. Shifts in market trends and conditions, changes in customer preferences due to the introduction of generic drugs or new pharmaceutical products or the loss of one or more significant customers are factors that could affect the value of our inventories. These factors could make our estimates of inventory valuation differ from actual results.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Acquisitions: We account for acquired businesses using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Amounts allocated to acquired in-process research and development are expensed at the date of acquisition. The judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact our results of operations. The valuations are based on information available near the acquisition date and are based on expectations and assumptions that have been deemed reasonable by management.

There are several methods that can be used to determine the fair value of assets acquired and liabilities assumed. For intangible assets, we typically use the income method. This method starts with a forecast of all of the expected future net cash flows. These cash flows are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. Some of the more significant estimates and assumptions inherent in the income method or other methods include the amount and timing of projected future cash flows; the discount rate selected to measure the risks inherent in the future cash flows; and the assessment of the asset's life cycle and the competitive trends impacting the asset, including consideration of any technical, legal, regulatory, or economic barriers to entry. Determining the useful life of an intangible asset also requires judgment as different types of intangible assets will have different useful lives and certain assets may even be considered to have indefinite useful lives. Refer to Financial Note 2, "Acquisitions and Investments" to the accompanying consolidated financial statements for additional information regarding our acquisitions.

Goodwill: As a result of acquiring businesses, we have \$3,345 million and \$2,975 million of goodwill at March 31, 2008 and 2007. We maintain goodwill assets on our books unless the assets are deemed to be impaired. We perform an impairment test on goodwill balances annually or when indicators of impairment exist. Such impairment tests require that we first compare the carrying value of net assets to the estimated fair value of net assets for the operations in which goodwill is assigned. If carrying value exceeds fair value, a second step would be performed to calculate the amount of impairment. Fair values can be determined using market, income or cost approaches. To estimate the fair value of a business using the market approach, we compare the business to similar businesses or guideline companies whose securities are actively traded in public markets or the income approach, where we use a discounted cash flow model in which cash flows anticipated over several periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate rate of return.

Some of the more significant estimates and assumptions inherent in the goodwill impairment estimation process using the market approach include the selection of appropriate guideline companies, the determination of market value multiples for the guideline companies, the subsequent selection of an appropriate market value multiple for the business based on a comparison of the business to the guideline companies, the determination of applicable premiums and discounts based on any differences in marketability between the business and the guideline companies and when considering the income approach, include the required rate of return used in the discounted cash flow method, which reflects capital market conditions and the specific risks associated with the business. Other estimates inherent in the income approach include long-term growth rates and cash flow forecasts for the business.

Estimates of fair value result from a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions at a point in time. The judgments made in determining an estimate of fair value can materially impact our results of operations. The valuations are based on information available as of the impairment review date and are based on expectations and assumptions that have been deemed reasonable by management. Any changes in key assumptions, including unanticipated events and circumstances, may affect the accuracy or validity of such estimates and could potentially result in an impairment charge.

In September 2006, we sold our Distribution Solutions' Medical-Surgical Acute Care supply business and allocated \$79 million of the segment's goodwill to the divested business. The allocation was based on the relative fair values of the Acute Care business and continuing businesses that were retained by the Company.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Goodwill at March 31, 2008 and 2007 was \$3,345 million and \$2,975 million and we concluded that there was no impairment of our goodwill. Decreasing the multiple of earnings or multiple of revenues of competitors used for impairment testing by one point or increasing the discount rate in the discounted cash flow analysis used for impairment testing by 1% would not have indicated impairment for any of the Company's reporting units for 2008 or 2007. Refer to Financial Note 9, "Goodwill and Intangible Assets, net" in the accompanying consolidated financial statements for additional information regarding goodwill.

Supplier Reserves: We establish reserves against amounts due from our suppliers relating to various price and rebate incentives, including deductions or billings taken against payments otherwise due to them from us. These reserve estimates are established based on our best judgment after carefully considering the status of current outstanding claims, historical experience with the suppliers, the specific incentive programs and any other pertinent information available to us. We evaluate amounts due from our suppliers on a continual basis and adjust the reserve estimates when appropriate based on changes in factual circumstances. As of March 31, 2008 and 2007, supplier reserves were \$82 million and \$100 million. All of the supplier reserves at March 31, 2008 and 2007 pertain to our Distribution Solutions segment. A hypothetical 0.1% percentage increase or decrease in the supplier reserve as a percentage of trade payables would have resulted in an increase or decrease in the cost of sales of approximately \$11 million in 2008. The ultimate outcome of any amounts due from our suppliers may be different from our estimate.

Income Taxes: Our income tax expense, deferred tax assets and liabilities reflect management's best assessment of estimated future taxes to be paid. We are subject to income taxes in both the U.S. and numerous foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax provision and in evaluating income tax uncertainties under Financial Accounting Standards Board Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes." We review our tax positions at the end of each quarter and adjust the balances as new information becomes available.

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets, we consider all available positive and negative evidence including our past operating results, the existence of cumulative net operating losses in the most recent years and our forecast of future taxable income. In estimating future taxable income, we develop assumptions including the amount of future state, federal and foreign pre-tax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we use to manage the underlying businesses. We had deferred income tax assets of \$1,290 million and \$1,269 million at March 31, 2008 and 2007 and deferred tax liabilities of \$1,555 million and \$1,524 million. We established valuation allowances of \$27 million and \$25 million, against certain deferred tax assets, which primarily relates to federal and state loss carry forwards for which the ultimate realization of future benefits is uncertain. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. Management is not aware of any such changes that could have a material effect on the Company's results of operations, cash flows or financial position.

If our assumptions and estimates described above were to change, an increase/decrease of 1% in our effective tax rate as applied to income from continuing operations would have increased/decreased tax expense by approximately \$15 million, or \$0.05 per diluted share, for 2008.

Share-Based Payment: Our compensation programs include share-based payments. Beginning in 2007, we account for all share-based payment transactions using a fair-value based measurement method required by SFAS No. 123(R). We adopted SFAS No. 123(R) using the modified prospective method of transition. The share-based compensation expense is recognized, for the portion of the awards that is ultimately expected to vest, on a straight-line basis over the requisite service period for those awards with graded vesting and service conditions. For the awards with performance conditions, we recognize the expense on a straight-line basis, on an accelerated basis. Upon adoption of SFAS No. 123(R) in 2007, we elected the "short-cut" method for calculating the beginning balance of the additional paid-in capital pool related to the tax effects of share-based compensation.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

We estimate the grant-date fair value of employee stock options using the Black-Scholes option-pricing model. We believe that it is difficult to accurately measure the value of an employee stock option. Our estimates of employee stock option values rely on estimates of factors we input into the model. The key factors involve an estimate of future uncertain events. The key factors influencing the estimation process, among others, are the expected term of the option, the expected stock price volatility factor and the expected dividend yield. We continue to use historical exercise patterns as our best estimate of future exercise patterns in determining our expected term of the option. We use a combination of historical and quoted implied volatility to determine the expected stock price volatility factor. We believe that this market-based input provides a better estimate of our future stock price movements and is consistent with emerging employee stock option valuation considerations. Through 2008, our expected stock price volatility assumption reflected a constant dividend yield during the expected term of the option. Once the fair values of employee stock options are determined, current accounting practices do not permit them to be changed, even if the estimates used are different from actual.

In addition, we develop an estimate of the number of share-based awards which will ultimately vest primarily based on historical experience. Changes in the estimated forfeiture rate can have a material effect on share-based compensation expense. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment is made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment is made to decrease the estimated forfeiture rate, which will result in an increase to the expense recognized in the financial statements. We re-assess the estimated forfeiture rate established upon grant periodically throughout the required service period. Such estimates are revised if they differ materially from actual forfeitures. As required, the forfeiture estimates will be adjusted to reflect actual forfeitures when an award vests. The actual forfeitures in the future reporting periods could be materially higher or lower than our current estimates.

Our assessments of estimated share-based compensation charges are affected by our stock price as well as assumptions regarding a number of complex and subjective variables and the related tax impact. These variables include, but are not limited to, the volatility of our stock price, employee stock option exercise behaviors, timing, level and types of our grants of annual share-based awards and the attainment of performance goals. As a result, the future share-based compensation expense may differ from the Company's historical amounts. In 2008, 2007 and 2006, share-based compensation expense was \$0.20, \$0.13 and \$0.03 per diluted share.

Loss Contingencies: We are subject to various claims, pending and potential legal actions for product liability and other damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of business. Each significant matter is regularly reviewed and assessed for potential financial exposure. If a potential loss is considered probable and can be reasonably estimated, we accrue a liability in the consolidated financial statements. The assessment of probability and estimation of amount is highly subjective and requires significant judgment due to uncertainties related to these matters and is based on the best information available at the time. The accruals are adjusted, as appropriate, as additional information becomes available. We regularly review contingencies to determine the adequacy of the accruals and related disclosures. The amount of actual loss may differ significantly from these estimates.

FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

Net cash flow from operating activities was \$869 million in 2008, compared with \$1,539 million in 2007 and \$2,738 million in 2006. Operating activities for 2008 were impacted by a use of cash of \$962 million due to the release of restricted cash for our Consolidated Securities Litigation Action. Excluding this \$962 million use of cash, cash flow provided from operations was \$1,831 million. In addition, operating activities in 2008 reflect changes in our working capital accounts due to revenue growth. Cash flows from operations can also be significantly impacted by factors such as the timing of receipts from customers and payments to vendors.

Operating activities for 2007 benefited from improved accounts receivable management, reflecting changes in our customer mix, our termination of a customer contract and an increase in accounts payable associated with improved payment terms. These benefits were partially offset by increases in inventory needed to support our growth and timing of inventory receipts. Operating activities for 2007 also include payments of \$25 million for the settlements of Securities Litigation cases.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Operating activities for 2006 benefited from improved working capital balances for our U.S. pharmaceutical distribution business as purchases from certain of our suppliers became better aligned with customer demand and as a result, net financial inventory (inventory, net of accounts payable) decreased. Operating activities for 2006 also benefited from better inventory management. Operating activities for 2006 include a \$143 million cash receipt in connection with an amended agreement entered into with a customer and cash settlement payments of \$243 million for the Securities Litigation cases. Additionally, cash flows from operations for 2006 include a reduction in current income taxes payable and a reduction in our deferred tax assets which largely pertain to our Securities Litigation cash settlement payments (including the \$962 million placed in escrow), which was deducted in our 2006 income tax return.

Net cash used in investing activities was \$5 million in 2008, compared with \$2,108 million in 2007 and \$1,813 million in 2006. Investing activities for 2008 benefited from the \$962 million release of restricted cash for our Consolidated Securities Litigation Action. Investing activities include \$610 million in 2008 of cash paid for business acquisitions, including \$531 million for OTN. Investing activities for 2007 reflect \$1,938 million of cash paid for our business acquisitions (including \$1.8 billion for Per-Se) and \$36 million for our investment in Parata. Investing activities for 2007 also reflect \$179 million of cash proceeds from the sale of our businesses, including \$164 million for the sale of our Acute Care business. Investing activities for 2006 reflect \$589 million of cash paid for our business acquisitions, including \$479 million for D&K, and a use of cash of \$962 million due to a transfer of cash to an escrow account for future payment of our Consolidated Securities Litigation Action. Partially offsetting these increases were cash proceeds of \$63 million pertaining to the sale of BioServices.

Financing activities utilized cash of \$1,470 million in 2008, provided cash of \$379 million in 2007 and utilized cash of \$583 million in 2006. Financing activities for 2008 include \$1.7 billion of cash paid for stock repurchases, partially offset by \$354 million of cash receipts from common stock issuances. Cash received from common stock issuances primarily represent employees' exercises of stock options.

Financing activities for 2007 include our March 2007 issuance of \$500 million of 5.25% notes due 2013 and \$500 million of 5.70% notes due 2017. Net proceeds from the issuance after offering expenses of the notes of \$990 million were used, together with cash on hand, to repay \$1.0 billion of short-term borrowings then outstanding under the interim facility we entered into in connection with the acquisition of Per-Se. Financing activities for 2007 also include \$1.0 billion of cash paid for stock repurchases, partially offset by \$399 million of cash receipts from common stock issuances.

Financing activities for 2006 include \$958 million of cash paid for stock repurchases and \$102 million of cash paid for the repayment of life insurance policy loans, partially offset by \$568 million of cash receipts from common stock issuances.

The Company's Board of Directors (the "Board") approved share repurchase plans in October 2003, August 2005, December 2005 and January 2006 which permitted the Company to repurchase up to a total of \$1.0 billion (\$250 million per plan) of the Company's common stock. Under these plans, we repurchased 19 million shares for \$958 million during 2006. As of March 31, 2006, less than \$1 million remained available for future repurchases under the January 2006 plan and all of these other plans were completed.

In April and July 2006, the Board approved two new share repurchase plans which permitted the Company to repurchase up to an additional \$1.0 billion (\$500 million per plan) of the Company's common stock. During 2007, we repurchased a total of 20 million shares for \$1.0 billion. As a result of these repurchases, we effectively completed all of the pre-2007 and 2007 share repurchase plans.

In April and September 2007, the Board approved two new plans to repurchase up to \$2.0 billion of the Company's common stock (\$1.0 billion per plan). In 2008, we repurchased a total of 28 million shares for \$1,686 million, fully utilizing the April 2007 plan, leaving \$314 million remaining on the September 2007 plan. In April 2008, the Board approved a new plan to repurchase an additional \$1.0 billion of the Company's common stock. Stock repurchases may be made from time-to-time in open market or private transactions.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Historically, we have provided contributions for our profit sharing investment plan (“PSIP”) for U.S. employees primarily through a leveraged employee stock ownership plan (“ESOP”). At March 31, 2008, almost all of the 24 million common shares in the ESOP had been allocated to plan participants. In 2008, 2007 and 2006, we granted 1 million shares per year to plan participants. As a result, we will need to fund most of our future PSIP contributions with cash or treasury shares. In 2008, had we paid cash for our PSIP contributions, such contributions would have amounted to \$53 million.

Selected Measures of Liquidity and Capital Resources:

<i>(Dollars in millions)</i>	March 31,		
	2008	2007	2006
Cash and cash equivalents	\$ 1,362	\$ 1,954	\$ 2,139
Working capital	2,438	2,730	3,527
Debt, net of cash and cash equivalents	435	4	(1,148)
Debt to capital ratio ⁽¹⁾	22.7%	23.8%	14.4%
Net debt to net capital employed ⁽²⁾	6.6%	0.1%	(24.1)%
Return on stockholders' equity ⁽³⁾	15.6%	15.2%	13.1%

(1) Ratio is computed as total debt divided by total debt and stockholders' equity.

(2) Ratio is computed as total debt, net of cash and cash equivalents (“net debt”), divided by net debt and stockholders' equity (“net capital employed”).

(3) Ratio is computed as net income, divided by a five-quarter average of stockholders' equity.

As of March 31, 2008, a significant portion of our cash and cash equivalents are on deposit with foreign financial institutions and are used to fund operations.

Working capital primarily includes cash, receivables and inventories, net of drafts and accounts payable and other liabilities. Our Distribution Solutions segment requires a substantial investment in working capital that is susceptible to large variations during the year as a result of inventory purchase patterns and seasonal demands. Inventory purchase activity is a function of sales activity and new customer build-up requirements. Consolidated working capital at March 31, 2008 decreased compared with that of the prior year end. Working capital was negatively impacted by decreases in cash and cash equivalents and net financial inventory (inventory, net of drafts and accounts payable) as well as an increase in other accrued liabilities. These decreases in working capital were partially offset by an increase in account receivables and the one-time benefit associated with a \$420 million reclassification of short-term tax liabilities to long-term liabilities as a result of our implementation of FIN No. 48. In 2007, our working capital decreased primarily as a result of increases in other liabilities and deferred revenue. Net financial inventory resulted in a small increase to working capital in 2007.

Our ratio of net debt to net capital employed increased in 2008 primarily reflecting an increase in net debt (i.e., a decrease in cash and cash equivalents as well as long-term debt). Our ratio of net debt to net capital employed increased in 2007 primarily due to our issuance of \$1.0 billion of long-term debt in relation to the Per-Se acquisition.

The Company has paid quarterly cash dividends at the rate of \$0.06 per share on its common stock since the fourth quarter of 1999. A dividend of \$0.06 per share was declared by the Board on January 23, 2008, and was paid on April 1, 2008 to stockholders of record at the close of business on March 3, 2008. In 2008, we paid total cash dividends of \$70 million. The Company anticipates that it will continue to pay quarterly cash dividends in the future. In April 2008, the Board approved a change in the Company's dividend policy by increasing the amount of the Company's quarterly dividend from six cents to twelve cents per share, which will apply to ensuing quarterly dividend declarations until further action by the Board. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon the Company's future earnings, financial condition, capital requirements and other factors.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Financial Obligations and Commitments:

The table below presents our significant financial obligations and commitments at March 31, 2008:

(In millions)		Years			
		Within 1	Over 1 to 3	Over 3 to 5	After 5
On balance sheet					
Long-term debt	\$ 1,797	\$ 2	\$ 217	\$ 903	\$ 675
Other ⁽¹⁾	349	29	51	54	215
Off balance sheet					
Purchase obligations	3,607	3,288	144	90	85
Interest on borrowings	799	118	216	164	301
Customer guarantees	122	46	21	1	54
Operating lease obligations	488	114	171	104	99
Total	\$ 7,162	\$ 3,597	\$ 820	\$ 1,316	\$ 1,429

(1) Primarily includes estimated payments for pension and postretirement plans.

We define a purchase obligation as an arrangement to purchase goods or services that is enforceable and legally binding on the Company. These obligations primarily relate to inventory purchases, capital commitments and service agreements. At March 31, 2008, the liability recorded for uncertain tax positions, excluding associated interest and penalties, was approximately \$496 million pursuant to FIN No. 48, "Accounting for Uncertainty in Income Taxes." This liability represents an estimate of tax positions that the Company has taken in its tax returns which may ultimately not be sustained upon examination by the tax authorities. Since the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty, the estimated FIN No. 48 liability has been excluded from the contractual obligations table.

We have agreements with certain of our customers' financial institutions (primarily for our Canadian business) under which we have guaranteed the repurchase of inventory at a discount in the event these customers are unable to meet certain obligations to those financial institutions. Among other limitations, these inventories must be in resalable condition. Customer guarantees range from one to seven years and were primarily provided to facilitate financing for certain strategic customers. At March 31, 2008, the maximum amounts of inventory repurchase guarantees and other customer guarantees were \$115 million and \$5 million. We consider it unlikely that we would make significant payments under these guarantees, and accordingly, amounts accrued for these guarantees were nominal.

In addition, our banks and insurance companies have issued \$101 million of standby letters of credit and surety bonds on our behalf in order to meet the security requirements for statutory licenses and permits, court and fiduciary obligations, and our workers' compensation and automotive liability programs.

Credit Resources:

We fund our working capital requirements primarily with cash, short-term borrowings and our receivables sales facility. In June 2007, we renewed our existing \$1.3 billion five-year, senior unsecured revolving credit facility, which was scheduled to expire in September 2009. The new credit facility has terms and conditions substantially similar to those previously in place and expires in June 2012. Borrowings under this new credit facility bear interest based upon either a Prime rate or the London Interbank Offering Rate. At March 31, 2008 and March 31, 2007, no amounts were outstanding under this facility.

In June 2007, we renewed our \$700 million committed accounts receivable sales facility. The facility was renewed under substantially similar terms to those previously in place. We intend to renew this facility prior to its expiration in June 2008. At March 31, 2008 and March 31, 2007, no amounts were outstanding under this facility.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

In January 2007, we entered into a \$1.8 billion interim credit facility. The interim credit facility was a single-draw 364-day unsecured facility which had terms substantially similar to those contained in the Company's existing revolving credit facility. We utilized \$1.0 billion of this facility to fund a portion of our purchase of Per-Se. On March 5, 2007, we issued \$500 million of 5.25% notes due 2013 and \$500 million of 5.70% notes due 2017. The notes are unsecured and interest is paid semi-annually on March 1 and September 1. The notes are redeemable at any time, in whole or in part, at our option. In addition, upon occurrence of both a change of control and a ratings downgrade of the notes to non-investment-grade levels, we are required to make an offer to redeem the notes at a price equal to 101% of the principal amount plus accrued interest. We utilized net proceeds, after offering expenses, of \$990 million from the issuance of the notes, together with cash on hand, to repay all amounts outstanding under the interim credit facility plus accrued interest.

Our senior debt credit ratings from S&P, Fitch, and Moody's are currently BBB+, BBB+ and Baa3, and our commercial paper ratings are currently A-2, F-2 and P-3. Our ratings outlook is positive with S&P and stable with Fitch and Moody's. Our various borrowing facilities and certain long-term debt instruments are subject to covenants. Our principal debt covenant is our debt to capital ratio, which cannot exceed 56.5%. If we exceed this ratio, repayment of debt outstanding under the revolving credit facility and \$215 million of term debt could be accelerated. At March 31, 2008, this ratio was 22.7% and we were in compliance with all other covenants. A reduction in our credit ratings or the lack of compliance with our covenants could result in a negative impact on our ability to finance our operations.

Funds necessary for the resolution of future debt maturities and our other cash requirements are expected to be met by existing cash balances, cash flows from operations, existing credit sources and other capital market transactions.

MARKET RISKS

Interest rate risk: Our long-term debt bears interest predominately at fixed rates, whereas our short-term borrowings are at variable interest rates. If the underlying weighted average interest rate on our variable rate debt were to have changed by 50 bp in 2008, interest expense would not have been materially different from that reported.

Our cash and cash equivalent balances earn interest at variable rates. Given recent declines in interest rates, our interest income may be negatively impacted. If the underlying weighted average interest rate on our cash and cash equivalent balances changed by 50 bp in 2008, interest income would have increased or decreased by approximately \$9 million.

As of March 31, 2008 and 2007, the net fair value liability of financial instruments with exposure to interest rate risk was approximately \$1,958 million and \$2,036 million. Fair value was estimated on the basis of quoted market prices, although trading in these debt securities is limited and may not reflect fair value. Fair value is subject to fluctuations based on our performance, our credit ratings, changes in the value of our stock and changes in interest rates for debt securities with similar terms.

Foreign exchange risk: We derive revenues and earnings from Canada, the United Kingdom, Ireland, other European countries, Israel, Asia Pacific and Mexico, which expose us to changes in foreign exchange rates. We seek to manage our foreign exchange risk in part through operational means, including managing same currency revenues in relation to same currency costs, and same currency assets in relation to same currency liabilities. Foreign exchange risk is also managed through the use of foreign currency forward-exchange contracts. These contracts are used to offset the potential earnings effects from mostly intercompany foreign currency investments and loans. As of March 31, 2008, an adverse 10% change in quoted foreign currency exchange rates would not have had a material impact on our net fair value of financial instruments that have exposure to foreign currency risk.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)****RELATED PARTY BALANCES AND TRANSACTIONS**

Information regarding our related party balances and transactions is included in “Critical Accounting Policies and Estimates” appearing within this Financial Review and Financial Note 20, “Related Party Balances and Transactions,” to the accompanying consolidated financial statements.

NEW ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements that we have recently adopted, as well as those that have been recently issued, but not yet adopted by us are included in Financial Note 1, “Significant Accounting Policies” to the accompanying consolidated financial statements.

FACTORS AFFECTING FORWARD-LOOKING STATEMENTS

In addition to historical information, management’s discussion and analysis includes certain forward-looking statements within the meaning of section 27A of the Securities Act of 1933, as amended and section 21E of the Securities Exchange Act of 1934, as amended. Some of the forward-looking statements can be identified by use of forward-looking words such as “believes,” “expects,” “anticipates,” “may,” “should,” “seeks,” “approximately,” “intends,” “plans,” or “estimates,” or the negative of these words, or other comparable terminology. The discussion of financial trends, strategy, plans or intentions may also include forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected, anticipated or implied. Although it is not possible to predict or identify all such risks and uncertainties, they may include, but are not limited to, the factors discussed under “Additional Factors That May Affect Future Results.” The reader should not consider this list to be a complete statement of all potential risks and uncertainties.

These and other risks and uncertainties are described herein or in our other public documents. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof, or to reflect the occurrence of unanticipated events.

ADDITIONAL FACTORS THAT MAY AFFECT FUTURE RESULTS

We are subject to legal proceedings that could have a material adverse impact on our financial position and results of operations.

From time-to-time and in the ordinary course of our business, we and certain of our subsidiaries may become involved in various legal proceedings. All such legal proceedings are inherently unpredictable, and the outcome can result in excessive verdicts and/or injunctive relief that may affect how we operate our business, or we may enter into settlements of claims for monetary damages. Future court decisions and legislative activity may increase the Company’s exposure to litigation and regulatory investigations. In some cases, substantial non-economic remedies or punitive damages may be sought. For some complaints filed against the Company, we are currently unable to estimate the remaining amount of possible losses that might be incurred should these legal proceedings be resolved against the Company.

The outcome of litigation and other legal matters is always uncertain, and outcomes that are not justified by the evidence or existing law can occur. The Company believes that it has valid defenses to the legal matters pending against it and is defending itself vigorously. Nevertheless, it is possible that resolution of one or any combination of more than one legal matters could result in a material adverse impact on our financial position or results of operations. For example, we are involved in a number of legal proceedings described in Financial Note 17 “Other Commitments and Contingent Liabilities” contained in the accompanying consolidated financial statements which could have such an impact, including class actions and other legal proceedings alleging that we engaged in illegal conduct which caused average wholesale prices to rise for certain prescription drugs during specified periods.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Litigation is costly, time-consuming and disruptive to normal business operations. The defense of these matters could also result in continued diversion of our management's time and attention away from business operations, which could also harm our business. Even if these matters are not resolved against us, the uncertainty and expense associated with unresolved legal proceedings could harm our business and reputation. For additional information regarding certain of the legal proceedings in which we are involved, see Financial Note 17, "Other Commitments and Contingent Liabilities," contained in the accompanying consolidated financial statements.

Changes in the United States healthcare environment could have a material negative impact on our revenues and net income.

Our products and services are primarily intended to function within the structure of the healthcare financing and reimbursement system currently being used in the United States. In recent years, the healthcare industry has changed significantly in an effort to reduce costs. These changes include increased use of managed care, cuts in Medicare and Medicaid reimbursement levels, consolidation of pharmaceutical and medical-surgical supply distributors, and the development of large, sophisticated purchasing groups.

We expect the healthcare industry to continue to change significantly in the future. Some of these changes, such as adverse changes in government funding of healthcare services, legislation or regulations governing the privacy of patient information, or the delivery or pricing of pharmaceuticals and healthcare services or mandated benefits, may cause healthcare industry participants to greatly reduce the amount of our products and services they purchase or the price they are willing to pay for our products and services.

Changes in the healthcare industry's, or any of our individual or collective group of pharmaceutical suppliers', pricing, selling, inventory, distribution or supply policies or practices, or changes in our customer mix could also significantly reduce our revenues and net income. Due to the diverse range of healthcare supply management and healthcare information technology products and services that we offer, such changes could have an adverse impact on our results of operations, while not affecting some of our competitors who offer a narrower range of products and services.

The majority of our U.S. pharmaceutical distribution business' agreements with manufacturers are structured to ensure that we are appropriately and predictably compensated for the services we provide; however, failure to successfully renew these contracts in a timely and favorable manner could have an adverse impact on our results of operations.

Healthcare and public policy trends indicate that the number of generic drugs will increase over the next few years as a result of the expiration of certain drug patents. In recent years, our revenues and gross profit margins have increased from our generic drug offering programs. An increase or a decrease in the availability or changes in pricing or reimbursement of these generic drugs could have an adverse impact on our results of operations.

"At-Risk" Launches. Generic drug manufacturers are increasingly challenging the validity or enforceability of patents on branded pharmaceutical products. During the pendency of these legal challenges, a generics manufacturer may begin manufacturing and selling a generic version of the branded product prior to the final resolution to its legal challenge over the branded product's patent. To the extent we distribute such generic products launched "at risk," the brand-name company could assert infringement claims against us. While we generally obtain indemnification against such claims from generic manufacturers as a condition of distributing their products, there can be no assurances that these rights will be adequate or sufficient to protect us.

International Sourcing. We may experience difficulties and delays inherent in sourcing products and contract manufacturing from foreign countries, including, but not limited to, (i) difficulties in complying with the requirements of applicable federal, state and local governmental authorities in the United States and of foreign regulatory authorities, (ii) inability to increase production capacity commensurate with demand or the failure to predict market demand, and (iii) other manufacturing or distribution problems including changes in types of products produced, limits to manufacturing capacity due to regulatory requirements, or physical limitations that could impact continuous supply. Manufacturing difficulties could result in manufacturing shutdowns, product shortages and delays in product manufacturing.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Pedigree Tracking. There have been increasing efforts by various levels of government agencies, including state boards of pharmacy and comparable government agencies, to regulate the pharmaceutical distribution system in order to prevent the introduction of counterfeit, adulterated and/or mislabeled drugs into the pharmaceutical distribution system (“pedigree tracking”). Certain states have adopted or are considering laws and regulations that are intended to protect the integrity of the pharmaceutical distribution system while other government agencies are currently evaluating their recommendations. Florida has adopted pedigree-tracking requirements and California has enacted a law requiring chain of custody technology using radio frequency tagging and electronic pedigrees. Final regulations under the federal Prescription Drug Marketing Act requiring pedigree and chain of custody tracking in certain circumstances became effective December 1, 2006. This latter regulation has been challenged in a case brought by secondary distributors. A preliminary injunction was issued by the Federal District Court for the Eastern District of New York that temporarily enjoined implementation of this regulation. These pedigree tracking laws and regulations could increase the overall regulatory burden and costs associated with our pharmaceutical distribution business, and could have an adverse impact on our results of operations. In addition, the U.S. Federal Drug Administration (“FDA”) Amendments Act of 2007, which went into effect on October 1, 2007, requires the FDA to establish standards and identify and validate effective technologies for the purpose of securing the pharmaceutical supply chain against counterfeit drugs. These standards may include any track-and-trace or authentication technologies, such as Radio Frequency Identification and other technologies. The FDA must develop a standardized numerical identifier by April 1, 2010.

Healthcare Fraud. We are subject to extensive and frequently changing local, state and federal laws and regulations relating to healthcare fraud. The federal government continues to strengthen its position and scrutiny over practices involving healthcare fraud affecting Medicare, Medicaid and other government healthcare programs. Furthermore, our relationships with pharmaceutical and medical-surgical product manufacturers and healthcare providers subject our business to laws and regulations on fraud and abuse, which among other things (i) prohibit persons from soliciting, offering, receiving or paying any remuneration in order to induce the referral of a patient for treatment or for inducing the ordering or purchasing of items or services that are in any way paid for by Medicare, Medicaid or other government-sponsored healthcare programs and (ii) impose a number of restrictions upon referring physicians and providers of designated health services under Medicare and Medicaid programs. Legislative provisions relating to healthcare fraud and abuse give federal enforcement personnel substantially increased funding, powers and remedies to pursue suspected fraud and abuse. Many of the regulations applicable to us, including those relating to marketing incentives, are vague or indefinite and have not been interpreted by the courts. They may be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that could require us to make changes in our operations. If we fail to comply with applicable laws and regulations, we could suffer civil and criminal penalties, including the loss of licenses or our ability to participate in Medicare, Medicaid and other federal and state healthcare programs.

Claims Transmissions. Medical billing and collection activities are governed by numerous federal and state civil and criminal laws that pertain to companies that provide billing and collection services, or that provide consulting services in connection with billing and collection activities. In connection with these laws, we may be subjected to federal or state government investigations and possible penalties may be imposed upon us, false claims actions may have to be defended, private payers may file claims against us, and we may be excluded from Medicare, Medicaid or other government-funded healthcare programs. Any such proceeding or investigation could have an adverse impact on our results of operations.

E-Prescribing. The use of our solutions by physicians for electronic prescribing, electronic routing of prescriptions to pharmacies and dispensing is governed by federal and state law. States have differing prescription format requirements, which we have programmed into our software. In addition, in November 2005, the U.S. Department of Health and Human Services (the “HHS”) announced regulations by the Centers for Medicare and Medicaid Services (“CMS”) related to “E-Prescribing and the Prescription Drug Program” (“E-Prescribing Regulations”). These E-Prescribing Regulations were mandated by the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The E-Prescribing Regulations set forth standards for the transmission of electronic prescriptions. These standards are detailed and significant, and cover not only transactions between prescribers and dispensers for prescriptions but also electronic eligibility and benefits inquiries and drug formulary and benefit coverage information. Our efforts to provide solutions that enable our clients to comply with these regulations could be time-consuming and expensive.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Reimbursements. Both our own profit margins and the profit margins of our customers may be adversely affected by laws and regulations reducing reimbursement rates for pharmaceuticals and/or medical treatments or services or changing the methodology by which reimbursement levels are determined. For example, the Deficit Reduction Act of 2005 (“DRA”) was intended to reduce net Medicare and Medicaid spending by approximately \$11 billion over five years. Effective January 1, 2007, the DRA changed the federal upper payment limit for Medicaid reimbursement from 150% of the lowest published price for generic pharmaceuticals (which is usually the average wholesale price) to 250% of the lowest average manufacturer price (“AMP”). On July 17, 2007, CMS published a final rule implementing these provisions and clarifying, among other things, the AMP calculation methodology and the DRA provision requiring manufacturers to publicly report AMP for branded and generic pharmaceuticals. On December 19, 2007, the United States District Court for the District of Columbia issued a preliminary injunction prohibiting use of the AMP calculation in connection with Medicaid reimbursement pending resolution of a lawsuit claiming that CMS had acted unlawfully in adopting the rule. We expect that, the use of an AMP benchmark would result in a reduction in the Medicaid reimbursement rates to our customers for certain generic pharmaceuticals, which could indirectly impact the prices that we can charge our customers for generic pharmaceuticals and cause corresponding declines in our profitability. There can be no assurance that the changes under the DRA would not have an adverse impact on our business.

Healthcare Industry Consolidation. In recent years, the pharmaceutical suppliers have been subject to increasing consolidation. As a result, a small number of very large companies control a significant share of the market. Accordingly, we depend on fewer suppliers for our products and we are less able to negotiate price terms with the suppliers. Many healthcare organizations have consolidated to create larger healthcare enterprises with greater market power. If this consolidation trend continues, it could reduce the size of our target market and give the resulting enterprises greater bargaining power, which may lead to erosion of the prices for our products and services. In addition, when healthcare organizations combine they often consolidate infrastructure including IT systems, and acquisition of our clients could erode our revenue base.

Competition may erode our profit.

In every area of healthcare distribution operations, our Distribution Solutions segment faces strong competition, both in price and service, from national, regional and local full-line, short-line and specialty wholesalers, service merchandisers, self-warehousing chains, manufacturers engaged in direct distribution and large payor organizations. In addition, this segment faces competition from various other service providers and from pharmaceutical and other healthcare manufacturers (as well as other potential customers of the segment) which may from time to time decide to develop, for their own internal needs, supply management capabilities which would otherwise be provided by the segment and other competing service providers. Price, quality of service, and in some cases, convenience to the customer are generally the principal competitive elements in these segments.

Our Technology Solutions segment experiences substantial competition from many firms, including other computer services firms, consulting firms, shared service vendors, certain hospitals and hospital groups, hardware vendors and Internet-based companies with technology applicable to the healthcare industry. Competition varies in size from small to large companies, in geographical coverage, and in scope and breadth of products and services offered. These competitive pressures could have an adverse impact on our results of operations.

Our Distribution Solutions segment is subject to inflation in branded pharmaceutical prices and deflation in generic pharmaceutical prices, which subjects us to risks and uncertainties.

Certain of our U.S. pharmaceutical distribution business’ agreements entered into with branded pharmaceutical manufacturers are partially inflation-based. A slowing in the frequency or rate of branded price increases could have an adverse impact on our results of operations. In addition, we also distribute generic pharmaceuticals, which are subject to price deflation. An acceleration of the frequency or rate of generic price decreases could also have an adverse impact on our results of operations.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Substantial defaults in payment or a material reduction in purchases of our products by large customers could have a significant negative impact on our financial condition and results of operations and liquidity.

In recent years, a significant portion of our revenue growth has been with a limited number of large customers. During the year ended March 31, 2008, sales to our ten largest customers accounted for approximately 53% of our total consolidated revenues. Sales to our two largest customers, Caremark and Rite Aid, represented approximately 14% and 13% of our 2008 total consolidated revenues. At March 31, 2008, accounts receivable from our ten largest customers were approximately 43% of total accounts receivable. Accounts receivable from Caremark and Rite Aid were approximately 12% and 11% of total accounts receivable. We also have agreements with group purchasing organizations, each of which functions as a purchasing agent on behalf of member hospitals, pharmacies and other healthcare providers. As a result, our sales and credit concentration is significant. Any defaults in payment or a material reduction in purchases from a large customer could have an adverse impact on our results of operations.

Any adverse change in general economic conditions can adversely reduce sales to our customers or affect consumer buying practices which would reduce our revenue growth and cause a decrease in our profitability. Further, interest rate fluctuations and changes in capital market conditions may affect our customers' ability to obtain credit to finance their business under acceptable terms, which would reduce our revenue growth and cause a decrease in our profitability.

Our Distribution Solutions segment is dependent upon sophisticated information systems. The implementation delay, malfunction or failure of these systems for any extended period of time could adversely affect our business.

We rely on sophisticated information systems in our business to obtain, rapidly process, analyze and manage data to: (i) facilitate the purchase and distribution of thousands of inventory items from numerous distribution centers; (ii) receive, process and ship orders on a timely basis; (iii) manage the accurate billing and collections for thousands of customers; and (iv) process payments to suppliers. If these systems are interrupted, damaged by unforeseen events, or fail for any extended period of time, we could have an adverse impact on our results of operations.

Reduced capacity in the commercial property insurance market exposes us to potential loss.

In order to provide prompt and complete service to our major Distribution Solutions customers, we maintain significant product inventory at certain of our distribution centers. While we seek to maintain property insurance coverage in amounts sufficient for our business, there can be no assurance that our property insurance will be adequate or available on acceptable terms. One or more large casualty losses caused by fire, earthquake or other natural disaster in excess of our coverage limits could have an adverse impact on our results of operations.

We could become subject to liability claims that are not adequately covered by our insurance, and may have to pay damages and other expenses which could have an adverse impact on our results of operations.

Our business exposes us to risks that are inherent in the distribution, manufacturing, dispensing of pharmaceuticals and medical-surgical supplies, the provision of ancillary services, the conduct of our payor businesses (which include disease management programs and our nurse triage services) and the provision of products that assist clinical decision-making and relate to patient medical histories and treatment plans. If customers assert liability claims against our products and/or services, any ensuing litigation, regardless of outcome, could result in a substantial cost to us, divert management's attention from operations and decrease market acceptance of our products. We attempt to limit, by contract, our liability to customers; however, the limitations of liability set forth in the contracts may not be enforceable or may not otherwise protect us from liability for damages. We also maintain general liability coverage; however, this coverage may not continue to be available on acceptable terms or may not be available in sufficient amounts to cover one or more large claims against us. In addition, the insurer might disclaim coverage as to any future claim. A successful product or professional liability claim not fully covered by our insurance could have an adverse impact on our results of operations.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

The failure of our Technology Solutions business to attract and retain customers due to challenges in software product integration or to keep pace with technological advances may significantly reduce our revenues or increase our expenses.

Our Technology Solutions business delivers enterprise-wide clinical, patient care, financial, supply chain, strategic management software solutions and pharmacy automation to hospitals, physicians, homecare providers, retail and mail order pharmacies and payors. Challenges in integrating Technology Solutions software products could impair our ability to attract and retain customers and could have an adverse impact on our results of operations.

Future advances in the healthcare information systems industry could lead to new technologies, products or services that are competitive with the products and services offered by our Technology Solutions business. Such technological advances could also lower the cost of such products and services or otherwise result in competitive pricing pressure. The success of our Technology Solutions business will depend, in part, on its ability to be responsive to technological developments, pricing pressures and changing business models. To remain competitive in the evolving healthcare information systems marketplace, our Technology Solutions business must develop new products on a timely basis. The failure to develop competitive products and to introduce new products on a timely basis could curtail the ability of our Technology Solutions business to attract and retain customers and thereby could have an adverse impact on our results of operations.

The loss of third party licenses utilized by our Technology Solutions segment may adversely impact our operating results.

We license the rights to use certain technologies from third-party vendors to incorporate in or complement our Technology Solutions segment's products and solutions. These licenses are generally nonexclusive, must be renewed periodically by mutual consent and may be terminated if we breach the terms of the license. As a result, we may have to discontinue, delay or reduce product shipments until we obtain equivalent technology, which could hurt our business. Our competitors may obtain the right to use any of the technology covered by these licenses and use the technology to compete directly with us. In addition, if our vendors choose to discontinue support of the licensed technology in the future, we may not be able to modify or adapt our own products.

Proprietary technology protections may not be adequate and products may be found to infringe the rights of third parties.

We rely on a combination of trade secret, patent, copyright and trademark laws, nondisclosure and other contractual provisions and technical measures to protect our proprietary rights in our products. There can be no assurance that these protections will be adequate or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology. Although we believe that our products do not infringe the proprietary rights of third parties, from time to time third parties have asserted infringement claims against us and there can be no assurance that third parties will not assert infringement claims against us in the future. If we were found to be infringing others' rights, we may be required to pay substantial damage awards and forced to develop non-infringing technology, obtain a license or cease selling the products that contain the infringing technology. Additionally, we may find it necessary to initiate litigation to protect our trade secrets, to enforce our patent, copyright and trademark rights, and to determine the scope and validity of the proprietary rights of others. These types of litigation can be costly and time consuming. These litigation expenses, damage payments or costs of developing replacement technology could have an adverse impact on our results of operations.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)****System errors or failures of our products to conform to specifications could cause unforeseen liabilities.**

The software and software systems (“systems”) that we sell or operate are very complex. As with complex systems offered by others, our systems may contain errors, especially when first introduced. For example, our Technology Solutions business systems are intended to provide information for healthcare providers in providing patient care. Therefore, users of our systems have a greater sensitivity to errors than the general market for software products. Failure of a client’s system to perform in accordance with our documentation could constitute a breach of warranty and could require us to incur additional expense in order to make the system comply with the documentation. If such failure is not remedied in a timely manner, it could constitute a material breach under a contract, allowing the client to cancel the contract, obtain refunds of amounts previously paid or assert claims for significant damages.

Various risks could interrupt customers’ access to their data residing in our service center, exposing us to significant costs.

We provide remote hosting services that involve operating both our software and the software of third-party vendors for our customers. The ability to access the systems and the data that we host and support on demand is critical to our customers. Our operations and facilities are vulnerable to interruption and/or damage from a number of sources, many of which are beyond our control, including, without limitation: (i) power loss and telecommunications failures; (ii) fire, flood, hurricane and other natural disasters; (iii) software and hardware errors, failures or crashes; and (iv) computer viruses, hacking and similar disruptive problems. We attempt to mitigate these risks through various means including disaster recovery plans, separate test systems and change control and system security measures, but our precautions may not protect against all problems. If customers’ access is interrupted because of problems in the operation of our facilities, we could be exposed to significant claims, particularly if the access interruption is associated with problems in the timely delivery of medical care. We must maintain disaster recovery and business continuity plans that rely upon third-party providers of related services, and if those vendors fail us at a time that our center is not operating correctly, we could incur a loss of revenue and liability for failure to fulfill our contractual service commitments. Any significant instances of system downtime could negatively affect our reputation and ability to sell our remote hosting services.

Regulation of our distribution businesses and regulation of our computer-related products could impose increased costs, delay the introduction of new products and negatively impact our business.

The healthcare industry is highly regulated. We are subject to various local, state, federal, foreign and transnational laws and regulations, which include the operating and security standards of the Drug Enforcement Administration (the “DEA”), the FDA, various state boards of pharmacy, state health departments, the HHS, CMS, and other comparable agencies. Certain of our subsidiaries may be required to register for permits and/or licenses with, and comply with operating and security standards of the DEA, the FDA, HHS and various state boards of pharmacy, state health departments and/or comparable state agencies as well as foreign agencies and certain accrediting bodies depending upon the type of operations and location of product distribution, manufacturing and sale.

In addition, the FDA has increasingly focused on the regulation of computer products and computer-assisted products as medical devices under the Federal Food, Drug and Cosmetic Act. If the FDA chooses to regulate any of our products as medical devices, it can impose extensive requirements upon us. If we fail to comply with the applicable requirements, the FDA could respond by imposing fines, injunctions or civil penalties, requiring recalls or product corrections, suspending production, refusing to grant pre-market clearance of products, withdrawing clearances and initiating criminal prosecution. Any final FDA policy governing computer products, once issued, may increase the cost and time to market new or existing products or may prevent us from marketing our products.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

We regularly receive requests for information and occasionally subpoenas from government authorities. Although we believe that we are in compliance, in all material respects, with applicable laws and regulations, there can be no assurance that a regulatory agency or tribunal would not reach a different conclusion concerning the compliance of our operations with applicable laws and regulations. In addition, there can be no assurance that we will be able to maintain or renew existing permits, licenses or any other regulatory approvals or obtain without significant delay future permits, licenses or other approvals needed for the operation of our businesses. Any noncompliance by us with applicable laws and regulations or the failure to maintain, renew or obtain necessary permits and licenses could have an adverse impact on our results of operations.

Regulations relating to patient confidentiality and to format and data content standards could depress the demand for our products and impose significant product redesign costs and unforeseen liabilities on us.

State and federal laws regulate the confidentiality of patient records and the circumstances under which those records may be released. These regulations govern the disclosure and use of confidential patient medical record information and require the users of such information to implement specified security measures. Regulations currently in place governing electronic health data transmissions continue to evolve and are often unclear and difficult to apply. Although our systems have been updated and modified to comply with the current requirements of state laws and the Federal Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), evolving laws and regulations in this area could restrict the ability of our customers to obtain, use or disseminate patient information or could require us to incur significant additional costs to re-design our products in a timely manner, either of which could have an adverse impact on our business.

The length of our sales and implementation cycles for our Technology Solutions segment could have an adverse impact on our future operating results.

Many of the solutions offered by our Technology Solutions segment have long sales and implementation cycles, which could range from a few months to over two years or more from initial contact with the customer to completion of implementation. How and when to implement, replace, or expand an information system, or modify or add business processes, are major decisions for healthcare organizations. Many of the solutions we provide typically require significant capital expenditures and time commitments by the customer. Any decision by our customers to delay implementation could have an adverse impact on our results of operations. Furthermore, delays or failures to meet milestones established in our agreements may result in a breach of contract, termination of the agreement, damages and/or penalties as well as a reduction in our margins or a delay in our ability to recognize revenue.

We may be required to record a significant charge to earnings if our goodwill or intangible assets become impaired.

We are required under generally accepted accounting principles to test our goodwill for impairment at least annually as well as review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Factors that may be considered a change in circumstances indicating that the carrying value of our intangible assets may not be recoverable include slower growth rates and the loss of a significant customer. We may be required to record a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill or intangible assets is determined. This could have an adverse impact on our results of operations.

McKESSON CORPORATION**FINANCIAL REVIEW (Concluded)****Our operating results and our financial condition may be adversely affected by foreign operations.**

We have operations based in foreign countries, including Canada, the United Kingdom, other European countries, Asia Pacific and Israel and we have a large investment in Mexico. In the future, we look to continue to grow our foreign operations both organically and through acquisitions and investments; however, increasing our foreign operations carries additional risks. Operations outside of the United States may be affected by changes in trade protection laws, policies, measures and other regulatory requirements affecting trade and investment; unexpected changes in regulatory requirements for software, social, political, labor or economic conditions in a specific country or region; import/export regulations in both the United States and foreign countries, and difficulties in staffing and managing foreign operations. Political changes and natural disasters, some of which may be disruptive, can interfere with our supply chain, our customers and all of our activities in a particular location. Additionally, foreign operations expose us to foreign currency fluctuations that could adversely impact our results of operations based on the movements of the applicable foreign currency exchange rates in relation to the U.S. dollar.

Tax legislation initiatives or challenges to our tax positions could adversely affect our net earnings.

We are a large multinational corporation with operations in the United States and international jurisdictions. As such, we are subject to the tax laws and regulations of the United States federal, state and local governments and of many international jurisdictions. From time to time, various legislative initiatives may be proposed that could adversely affect our tax positions. There can be no assurance that our effective tax rate will not be adversely affected by these initiatives. In addition, United States federal, state and local, as well as international, tax laws and regulations are extremely complex and subject to varying interpretations. Although we believe that our historical tax positions are sound and consistent with applicable laws, regulations and existing precedent, there can be no assurance that these tax positions will not be challenged by relevant tax authorities or that we would be successful in any such challenge.

Our business could be hindered if we are unable to complete and integrate acquisitions successfully.

An element of our strategy is to identify, pursue and consummate acquisitions that either expand or complement our business. Integration of acquisitions involves a number of risks including the diversion of management's attention to the assimilation of the operations of businesses we have acquired, difficulties in the integration of operations and systems and the realization of potential operating synergies, the assimilation and retention of the personnel of the acquired companies, challenges in retaining the customers of the combined businesses, and potential adverse effects on operating results. In addition, we may potentially require additional financing in order to fund future acquisitions, which may or may not be attainable. If we are unable to successfully complete and integrate strategic acquisitions in a timely manner, our business and our growth strategies could be negatively affected.

In addition to the above, changes in generally accepted accounting principles and general economic and market conditions could affect future results.

McKESSON CORPORATION

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of McKesson Corporation is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). With the participation of the Chief Executive Officer and the Chief Financial Officer, our management conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework and criteria established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management has concluded that our internal control over financial reporting was effective as of March 31, 2008.

Deloitte & Touche LLP, an independent registered public accounting firm, audited the financial statements included in this Annual Report on Form 10-K, and has also audited the effectiveness of the Company's internal control over financial reporting as of March 31, 2008. This audit report appears on page 59 of this Annual Report on Form 10-K.

May 7, 2008

/s/ John H. Hammergren

John H. Hammergren

Chairman, President and Chief Executive Officer
(Principal Executive Officer)

/s/ Jeffrey C. Campbell

Jeffrey C. Campbell

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

McKESSON CORPORATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Stockholders and Board of Directors of McKesson Corporation:

We have audited the accompanying consolidated balance sheets of McKesson Corporation and subsidiaries (the "Company") as of March 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three fiscal years in the period ended March 31, 2008. Our audit also included the supplementary consolidated financial statement schedule ("financial statement schedule") listed in the Index at Item 15(a). We also have audited the Company's internal control over financial reporting as of March 31, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Annual Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on these financial statements and financial statement schedule, and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of McKesson Corporation and subsidiaries as of March 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three fiscal years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2008, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes— an interpretation of FASB Statement No. 109*, on April 1, 2007, Statement of Financial Accounting Standards ("SFAS") No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* on March 31, 2007, and SFAS 123(R), *Share-Based Payment*, on April 1, 2006.

Deloitte & Touche LLP
San Francisco, California
May 7, 2008

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share amounts)

	Years Ended March 31,		
	2008	2007	2006
Revenues	\$ 101,703	\$ 92,977	\$ 86,983
Cost of Sales	96,694	88,645	83,206
Gross Profit	5,009	4,332	3,777
Operating Expenses			
Selling	744	673	590
Distribution	886	771	686
Research and development	347	284	223
Administrative	1,559	1,346	1,107
Securities Litigation charge (credit), net	(5)	(6)	45
Total	3,531	3,068	2,651
Operating Income	1,478	1,264	1,126
Interest Expense	(142)	(99)	(94)
Other Income, Net	121	132	139
Income from Continuing Operations Before Income Taxes	1,457	1,297	1,171
Income Tax Provision	(468)	(329)	(426)
Income After Income Taxes			
Continuing operations	989	968	745
Discontinued operations, net	1	(5)	(7)
Discontinued operations – gain (loss) on sales, net	-	(50)	13
Net Income	\$ 990	\$ 913	\$ 751
Earnings Per Common Share			
Diluted			
Continuing operations	\$ 3.32	\$ 3.17	\$ 2.36
Discontinued operations, net	-	(0.02)	(0.02)
Discontinued operations – gain (loss) on sales, net	-	(0.16)	0.04
Total	\$ 3.32	\$ 2.99	\$ 2.38
Basic			
Continuing operations	\$ 3.40	\$ 3.25	\$ 2.44
Discontinued operations, net	-	(0.02)	(0.02)
Discontinued operations – gain (loss) on sales, net	-	(0.17)	0.04
Total	\$ 3.40	\$ 3.06	\$ 2.46
Weighted Average Shares			
Diluted	298	305	316
Basic	291	298	306

See Financial Notes

McKESSON CORPORATION

CONSOLIDATED BALANCE SHEETS
(In millions, except per share amounts)

	March 31,	
	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,362	\$ 1,954
Restricted cash for Consolidated Securities Litigation		
Action	-	962
Receivables, net	7,213	6,566
Inventories, net	9,000	8,153
Prepaid expenses and other	211	221
Total	<u>17,786</u>	<u>17,856</u>
Property, Plant and Equipment, Net	775	684
Capitalized Software Held for Sale	199	166
Goodwill	3,345	2,975
Intangible Assets, Net	661	613
Other Assets	1,837	1,649
Total Assets	<u>\$ 24,603</u>	<u>\$ 23,943</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Drafts and accounts payable	\$ 12,032	\$ 10,873
Deferred revenue	1,210	1,027
Current portion of long-term debt	2	155
Consolidated Securities Litigation Action	-	962
Other accrued	2,104	2,109
Total	<u>15,348</u>	<u>15,126</u>
Other Noncurrent Liabilities	1,339	741
Long-Term Debt	1,795	1,803
Other Commitments and Contingent Liabilities (Note 17)		
Stockholders' Equity		
Preferred stock, \$0.01 par value, 100 shares authorized, no shares issued or outstanding	-	-
Common stock, \$0.01 par value		
Shares authorized: 2008 and 2007 – 800		
Shares issued: 2008 – 351, 2007 – 341	4	3
Additional Paid-in Capital	4,252	3,722
Other Capital	(10)	(19)
Retained Earnings	5,586	4,712
Accumulated Other Comprehensive Income	152	31
ESOP Notes and Guarantees	(3)	(14)
Treasury Shares, at Cost, 2008 – 74 and 2007 – 46	(3,860)	(2,162)
Total Stockholders' Equity	<u>6,121</u>	<u>6,273</u>
Total Liabilities and Stockholders' Equity	<u>\$ 24,603</u>	<u>\$ 23,943</u>

See Financial Notes

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended March 31, 2008, 2007 and 2006
(In millions except per share amounts)

	Common Stock		Additional Paid-in Capital		Other Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	ESOP Notes and Guarantees	Treasury		Stockholders' Equity	Restated Comprehensive Income (Loss)	
	Shares	Amount	Capital	Capital					Shares	Amount			
Balances, March 31, 2005	306	\$	3	\$	2,320	\$	(42) \$ 3,194	\$	32	\$	(36)	(7) \$ (196) \$ 5,275	
Issuance of shares under employee plans	18		-		617		(41)				(6)	570	
Share-based compensation					16							16	
Tax benefit related to issuance of shares under employee plans					106							106	
ESOP note collections								11				11	
Note reserves						(8)						(8)	
Translation adjustment							24					24	\$ 24
Additional minimum pension liability, net of tax of \$2							(4)					(4)	(4)
Net income						751						751	751
Unrealized gain on investments, net of tax of \$(2)							3					3	3
Conversion of Debentures	6		-		195							195	
Repurchase of common stock									(19)	(958)		(958)	
Cash dividends declared, \$0.24 per common share						(74)						(74)	
Balances, March 31, 2006	330	\$	3	\$	3,238	\$	(75) \$ 3,871	\$	55	\$	(25)	(26) \$ (1,160) \$ 5,907	\$ 774
Issuance of shares under employee plans	11		-		399						(2)	397	
Share-based compensation					59							59	
Tax benefit related to issuance of shares under employee plans					68							68	
ESOP note collections								10				10	
Notes rescinded						16						16	
Note reserves						(2)						(2)	
Translation adjustment							33					33	33
Additional minimum pension liability, net of tax of \$(3)							8					8	8
Net income						913						913	913
Unrealized loss on investments, net of tax of \$1							(2)					(2)	(2)
Repurchase of common stock									(20)	(1,000)		(1,000)	
Cash dividends declared, \$0.24 per common share						(72)						(72)	
Adjustment to initially apply FASB Statement No. 158, net of tax of \$37							(63)					(63)	
Other					(42)	42		1				1	
Balances, March 31, 2007	341	\$	3	\$	3,722	\$	(19) \$ 4,712	\$	31	\$	(14)	(46) \$ (2,162) \$ 6,273	\$ 952
Issuance of shares under employee plans	10		1		354						(12)	343	
Share-based compensation					91							91	
Tax benefit related to issuance of shares under employee plans					85							85	
ESOP note collections								11				11	
Translation adjustment							95					95	95
Benefit plans, net of tax of \$(13)							26					26	26
Net income						990						990	990
Repurchase of common stock									(28)	(1,686)		(1,686)	
Cash dividends declared, \$0.24 per common share						(70)						(70)	
Adoption of FIN No. 48						(46)						(46)	
Other					9							9	
Balances, March 31, 2008	351	\$	4	\$	4,252	\$	(10) \$ 5,586	\$	152	\$	(3)	(74) \$ (3,860) \$ 6,121	\$ 1,111

See Financial Notes

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Years Ended March 31,		
	2008	2007	2006
Operating Activities			
Net income	\$ 990	\$ 913	\$ 751
Discontinued operations, net of income taxes	(1)	55	(6)
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation	124	112	109
Amortization	247	183	153
Provision for bad debts	41	24	11
Deferred taxes	198	167	403
Share-based compensation expense	91	60	16
Excess tax benefit from share-based payment arrangements	(83)	(70)	-
Other non-cash items	(24)	(66)	(64)
Changes in operating assets and liabilities, net of acquisitions:			
Receivables	(288)	(209)	(519)
Inventories	(676)	(928)	601
Drafts and accounts payable	762	872	1,104
Deferred revenue	98	181	379
Taxes	336	144	(53)
Securities Litigation charge (credit), net	(5)	(6)	45
Securities Litigation settlement payments	(962)	(25)	(243)
Proceeds from sale of notes receivable	16	5	60
Other	5	127	(9)
Net cash provided by operating activities	869	1,539	2,738
Investing Activities			
Property acquisitions	(195)	(126)	(166)
Capitalized software expenditures	(161)	(180)	(160)
Acquisitions of businesses, less cash and cash equivalents acquired	(610)	(1,938)	(589)
Proceeds from sale of businesses	-	179	63
Restricted cash for Consolidated Securities Litigation Action	962	-	(962)
Other	(1)	(43)	1
Net cash used in investing activities	(5)	(2,108)	(1,813)
Financing Activities			
Proceeds from issuances of debt, net	-	1,997	-
Repayment of debt	(162)	(1,031)	(24)
Capital stock transactions:			
Issuances	354	399	568
Share repurchases	(1,698)	(1,003)	(958)
Excess tax benefits from share-based arrangements	83	70	-
ESOP notes and guarantees	11	10	12
Dividends paid	(70)	(72)	(73)
Other	12	9	(108)
Net cash provided by (used in) financing activities	(1,470)	379	(583)
Effect of exchange rate changes on cash and cash equivalents	14	5	(3)
Net increase (decrease) in cash and cash equivalents	(592)	(185)	339
Cash and cash equivalents at beginning of year	1,954	2,139	1,800
Cash and cash equivalents at end of year	\$ 1,362	\$ 1,954	\$ 2,139
Supplemental Information:			
Cash paid for:			
Interest	\$ 146	\$ 100	\$ 100
Income taxes, net of refunds	(66)	27	84
Non-cash Transaction:			
Common stock issued in conjunction with redemption of long-term debt	\$ -	\$ -	\$ 196

See Financial Notes

McKESSON CORPORATION

FINANCIAL NOTES

1. Significant Accounting Policies

Nature of Operations: The consolidated financial statements of McKesson Corporation (“McKesson,” the “Company,” or “we” and other similar pronouns) include the financial statements of all majority-owned or controlled companies. Significant intercompany transactions and balances have been eliminated. The Company’s fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references to a particular year shall mean the Company’s fiscal year.

We conduct our business through two segments, Distribution Solutions and Technology Solutions. Commencing in 2008, we realigned our business segments as further described in Financial Note 21, “Segments of Business.”

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation. The reclassifications are primarily related to changes to our segment reporting and had no impact on net income.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: All highly liquid debt instruments purchased with a maturity of three months or less at the date of acquisition are included in cash and cash equivalents.

Restricted Cash: Cash that is subject to legal restrictions or is unavailable for general operating purposes is classified as restricted cash. At March 31, 2007, restricted cash included \$962 million paid into an escrow account for future distribution to class members of our Securities Litigation settlement. The corresponding liability is in current liabilities under the caption “Consolidated Securities Litigation Action.” In 2008, the Company removed its \$962 million Consolidated Securities Litigation Action liability and corresponding restricted cash balance from its consolidated financial statements as all criteria for the extinguishment of this liability were met. Refer to Financial Note 17, “Other Commitments and Contingent Liabilities.”

Marketable Securities Available for Sale: We carry our marketable securities which are available for sale at fair value and the net unrealized gains and losses, net of the related tax effect, computed in marking these securities to market have been reported within stockholders’ equity. At March 31, 2008 and 2007, marketable securities were not material.

Inventories: We state inventories at the lower of cost or market. Inventories for our Distribution Solutions segment consist of merchandise held for resale. For our Distribution Solutions segment, the majority of the cost of domestic inventories is determined on the last-in, first-out (“LIFO”) method and Canadian inventories are stated using the first-in, first-out (“FIFO”) method. Technology Solutions segment inventories consist of computer hardware with cost determined by the standard cost method. The LIFO method is used to value approximately 88% of our inventories at March 31, 2008 and 2007. Total inventories before the LIFO cost adjustment, which approximates replacement cost, were \$9,077 million and \$8,244 million at March 31, 2008 and 2007. Vendor rebates, cash discounts, allowances and chargebacks received from vendors are generally accounted for as a reduction in the cost of inventory and are recognized when the inventory is sold.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Property, Plant and Equipment: We state our property, plant and equipment at cost and depreciate them on the straight-line method at rates designed to distribute the cost of properties over estimated service lives ranging from one to 30 years.

Capitalized Software Held for Sale: Development costs for software held for sale, which primarily pertain to our Technology Solutions segment, are capitalized once a project has reached the point of technological feasibility. Completed projects are amortized after reaching the point of general availability using the straight-line method based on an estimated useful life of approximately three years. We monitor the net realizable value of capitalized software held for sale to ensure that the investment will be recovered through future sales.

Additional information regarding our capitalized software expenditures is as follows:

(In millions)	Years Ended March 31,		
	2008	2007	2006
Amounts capitalized	\$ 73	\$ 76	\$ 61
Amortization expense	44	43	51
Third-party royalty fees paid	52	43	33

Goodwill: Goodwill is tested for impairment on an annual basis and between annual tests if indicators of potential impairment exist, using a fair-value based approach. The annual evaluation for impairment is generally based on valuation models that incorporate internal projections of expected future cash flows and operating plans. Other than our goodwill impairment relating to the disposition of our Acute Care business (see Financial Note 3, “Discontinued Operations,”) there have been no goodwill impairments during the years presented.

Intangible assets: Intangible assets are amortized using the straight-line method over their estimated period of benefit, ranging from one to twenty years. We evaluate the recoverability of intangible assets periodically and take into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists. Substantially all of our intangible assets are subject to amortization. No material impairments of intangible assets have been identified during any of the years presented.

Capitalized Software Held for Internal Use: We amortize capitalized software held for internal use over the assets’ estimated useful lives ranging from one to ten years. As of March 31, 2008 and 2007, capitalized software held for internal use was \$458 million and \$465 million, net of accumulated amortization of \$467 million and \$391 million and was included in Other Assets in the consolidated balance sheets.

Insurance Programs: Under our insurance programs, we seek to obtain coverage for catastrophic exposures as well as those risks required to be insured by law or contract. It is our policy to retain a significant portion of certain losses primarily related to workers’ compensation and comprehensive general, product, and vehicle liability. Provisions for losses expected under these programs are recorded based upon our estimate of the aggregate liability for claims incurred as well as for claims incurred but not yet reported. Such estimates utilize certain actuarial assumptions followed in the insurance industry.

Revenue Recognition: Revenues for our Distribution Solutions segment are recognized when we deliver product and title passes to the customer or when services have been rendered and there are no further obligations to customers.

Revenues are recorded net of sales returns, allowances and rebates. We accrue sales returns based on estimates at the time of sale to the customer. Sales returns from customers were approximately \$1,093 million, \$1,113 million and \$933 million in 2008, 2007 and 2006. Taxes collected from customers and remitted to governmental authorities are presented on a net basis; that is, they are excluded from revenues.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

The revenues for the Distribution Solutions segment include large volume sales of pharmaceuticals to a limited number of large customers who warehouse their own product. We order bulk product from the manufacturer, receive and process the product through our central distribution facility and deliver the bulk product (generally in the same form as received from the manufacturer) directly to our customers' warehouses. We also record revenues for direct store deliveries from most of these same customers. Sales to customer warehouses amounted to \$27.7 billion in 2008, \$27.6 billion in 2007 and \$25.5 billion in 2006. Direct store deliveries are shipments from the manufacturer to our customers of a limited category of products that require special handling. We assume the primary liability to the manufacturer for these products.

Based on the criteria of Emerging Issues Task Force ("EITF") Issue No. 99-19, "Reporting Revenue Gross as a Principal Versus Net as an Agent," our revenues are recorded gross when we are the primary party obligated in the transaction, take title to and possession of the inventory, are subject to inventory risk, have latitude in establishing prices, assume the risk of loss for collection from customers as well as delivery or return of the product, are responsible for fulfillment and other customer service requirements, or the transactions have several but not all of these indicators.

Revenues for our Technology Solutions segment are generated primarily by licensing software systems (consisting of software, hardware and maintenance support), and providing outsourcing and professional services. Revenue for this segment is recognized as follows:

Software systems are marketed under information systems agreements as well as service agreements. Perpetual software arrangements are recognized at the time of delivery or under the percentage-of-completion method based on the terms and conditions in the contract. Contracts accounted for under the percentage-of-completion method are generally measured based on the ratio of labor costs incurred to date to total estimated labor costs to be incurred. Changes in estimates to complete and revisions in overall profit estimates on these contracts are charged to earnings in the period in which they are determined. We accrue for contract losses if and when the current estimate of total contract costs exceeds total contract revenue.

Hardware revenues are generally recognized upon delivery. Revenue from multi-year software license agreements is recognized ratably over the term of the agreement. Software implementation fees are recognized as the work is performed or under the percentage-of-completion contract method. Maintenance and support agreements are marketed under annual or multi-year agreements and are recognized ratably over the period covered by the agreements. Remote processing service fees are recognized monthly as the service is performed. Outsourcing service revenues are recognized as the service is performed.

We also offer our products on an application service provider ("ASP") basis, making available our software functionality on a remote hosting basis from our data centers. The data centers provide system and administrative support, as well as hosting services. Revenue on products sold on an ASP basis is recognized on a monthly basis over the term of the contract starting when the hosting services begin.

This segment also engages in multiple-element arrangements, which may contain any combination of software, hardware, implementation or consulting services, or maintenance services. When some elements are delivered prior to others in an arrangement and vendor-specific objective evidence of fair value ("VSOE") exists for the undelivered elements, revenue for the delivered elements is recognized upon delivery of such items. The segment establishes VSOE for hardware and implementation and consulting services based on the price charged when sold separately, and for maintenance services, based on renewal rates offered to customers. Revenue for the software element is recognized under the residual method only when fair value has been established for all of the undelivered elements in an arrangement. If fair value cannot be established for any undelivered element, all of the arrangement's revenue is deferred until the delivery of the last element or until the fair value of the undelivered element is determinable.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Our Technology Solutions segment also includes revenues from disease management programs provided to various states' Medicaid programs. These service contracts include provisions for achieving certain cost-savings and clinical targets. If the targets are not met, a portion, or all, of the revenue must be refunded to the customer. We recognize revenue during the term of the contract by assessing our actual performance compared to targets and then determining the amount the customer would be legally obligated to pay if the contract terminated at that point. These assessments include estimates of medical claims and other data, which could require future adjustment because there is generally a significant time delay between recording the accrual and the final settlement of the contract. If data is insufficient to assess performance or we have not met the targets, we defer recognition of the revenue. As of March 31, 2008 and 2007, we had deferred \$81 million and \$104 million related to these contracts, which was included in deferred revenue in the consolidated balance sheets. We generally have been successful in achieving performance goals under these contracts.

Supplier Incentives: We generally account for fees for service and other incentives received from our suppliers, relating to the purchase or distribution of inventory, as a reduction to cost of goods sold. We consider these fees to represent product discounts, and as a result, the fees are recorded as a reduction of product cost and recognized through cost of goods sold upon the sale of the related inventory.

Supplier Reserves: We establish reserves against amounts due from our suppliers relating to various price and rebate incentives, including deductions or billings taken against payments otherwise due to them. These reserve estimates are established based on our judgment after carefully considering the status of current outstanding claims, historical experience with the suppliers, the specific incentive programs and any other pertinent information available to us. We evaluate the amounts due from our suppliers on a continual basis and adjust the reserve estimates when appropriate based on changes in factual circumstances. The ultimate outcome of any outstanding claim may be different than our estimate. As of March 31, 2008 and 2007, supplier reserves were \$82 million and \$100 million.

Shipping and Handling Costs: We include all costs to warehouse, pick, pack and deliver inventory to our customers in distribution expenses.

Income Taxes: We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Foreign Currency Translation: Assets and liabilities of international subsidiaries are translated into U.S. dollars at year-end exchange rates, and revenues and expenses are translated at average exchange rates during the year. Cumulative currency translation adjustments are included in accumulated other comprehensive income or losses in the stockholders' equity section of the consolidated balance sheets. Realized gains and losses from currency exchange transactions are recorded in operating expenses in the consolidated statements of operations and were not material to our consolidated results of operations in 2008, 2007 or 2006.

Derivative Financial Instruments: Derivative financial instruments are used principally in the management of our foreign currency and interest rate exposures and are recorded on the balance sheets at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized as a charge or credit to earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in accumulated other comprehensive income or losses and are recognized in the consolidated statements of operations when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized as a charge or credit to earnings. Derivative instruments not designated as hedges are marked-to-market at the end of each accounting period with the results included in earnings.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Concentrations of Credit Risk: Trade receivables subject us to a concentration of credit risk with customers primarily in our Distribution Solutions segment. A significant proportion of our revenue growth has been with a limited number of large customers and as a result, our credit concentration has increased. Accordingly, any defaults in payment by or a reduction in purchases from these large customers could have a significant negative impact on our financial condition, results of operations and liquidity. At March 31, 2008, revenues and accounts receivable from our ten largest customers accounted for approximately 53% of consolidated revenues and approximately 43% of accounts receivable. At March 31, 2008, revenues and accounts receivable from our two largest customers, CVS Caremark Corporation and Rite Aid Corporation, represented approximately 14% and 13% of total consolidated revenues and 12% and 11% of accounts receivable. We have also provided financing arrangements to certain of our customers, some of which are on a revolving basis. At March 31, 2008, these customer financing arrangements totaled approximately \$120 million.

Accounts Receivable Sales: At March 31, 2008, we had a \$700 million revolving receivables sales facility, which was fully available. The program qualifies for sale treatment under Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting For Transfers and Servicing Financial Assets and Extinguishments of Liabilities." Sales are recorded at the estimated fair values of the receivables sold, reflecting discounts for the time value of money based on U.S. commercial paper rates and estimated loss provisions. Discounts are recorded in administrative expenses in the consolidated statements of operations.

Share-Based Payment: Beginning in 2007, we account for all share-based payment transactions using a fair-value based measurement method required by SFAS No. 123(R), "Share-Based Payment." The share-based compensation expense is recognized, for the portion of the awards that is ultimately expected to vest, on a straight-line basis over the requisite service period for those awards with graded vesting and service conditions. For the awards with performance conditions, we recognize the expense on an accelerated basis.

Prior to the adoption of SFAS No. 123(R), we accounted for our employee stock-based compensation plans using the intrinsic value method under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Under this policy, since the exercise price of stock options we granted was generally set equal to the market price on the date of the grant, we did not record any expense to the income statement related to the grants of stock options, unless certain original grant-date terms were subsequently modified. See Financial Note 19, "Share-Based Payment," for the pro forma effect on net income and diluted earnings per common share required under the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," for the year ended March 31, 2006.

Recently Adopted Accounting Pronouncements: On April 1, 2007, we adopted Financial Accounting Standards Board Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes." Among other things, FIN No. 48 requires application of a "more likely than not" threshold for the recognition and derecognition of tax positions. It further requires that a change in judgment related to prior years' tax positions be recognized in the quarter of such change. The April 1, 2007 adoption of FIN No. 48 resulted in a reduction of our retained earnings by \$46 million.

Effective March 31, 2007, we adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." SFAS No. 158 requires the recognition of an asset or a liability in the consolidated balance sheets reflecting the funded status of pension and other postretirement benefits, with current-year changes in the funded status recognized in stockholders' equity. SFAS No. 158 did not change the existing criteria for measurement of periodic benefit costs, plan assets or benefit obligations. The incremental effect of the initial adoption of SFAS No. 158 reduced our shareholders' equity by \$63 million at March 31, 2007. Additionally, SFAS No. 158 requires the measurement of defined benefit plan assets and obligations to be the date of the Company's fiscal year-end. We plan on adopting this provision of SFAS No. 158 in 2009.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Subsequent to the issuance of the Company's 2007 Annual Report on Form 10-K, it was determined that we incorrectly presented the adjustment to initially apply SFAS No. 158 of \$63 million, net, as a reduction of 2007 comprehensive income within our Consolidated Statements of Stockholders' Equity for the year ended March 31, 2007. This error was corrected in 2008, increasing previously reported comprehensive income from \$889 million to \$952 million for the year ended March 31, 2007.

Newly Issued Accounting Pronouncements: In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This standard applies under other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) Financial Accounting Standard (FAS) 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Its Related Interpretive Accounting Pronouncements That Address Leasing Transactions," and FSP FAS 157-2, "Effective Date of FASB Statement No. 157." FSP FAS 157-1 removes leasing from the scope of SFAS No. 157. FSP FAS 157-2 delays the effective date of SFAS No. 157 from 2009 to 2010 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We are currently assessing the impact of SFAS No. 157.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115." SFAS No. 159 permits us to elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities that are not otherwise required to be measured at fair value, on an instrument-by-instrument basis. If we elect the fair value option, we would be required to recognize changes in fair value in our earnings. This standard also establishes presentation and disclosure requirements designed to improve comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for us in 2009 although early adoption is permitted. We are currently assessing the impact of SFAS No. 159 on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations." SFAS No. 141(R) amends SFAS No. 141 and provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed and any noncontrolling interest in the acquiree. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. We are currently evaluating the impact on our consolidated financial statements of this standard, which will become effective for us on April 1, 2009.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51." This statement requires reporting entities to present noncontrolling (minority) interests as equity (as opposed to as a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. We are currently evaluating the impact on our consolidated financial statements of this standard, which will become effective for us on April 1, 2009.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133." This statement requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 will become effective for us in 2009. As this standard impacts disclosures only, the adoption of this standard will not have material impact on our consolidated financial statements.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)****2. Acquisitions and Investments**

In 2008, we made the following acquisition:

- On October 29, 2007, we acquired all of the outstanding shares of Oncology Therapeutics Network (“OTN”) of San Francisco, California for approximately \$531 million, including the assumption of debt and net of \$31 million of cash acquired from OTN. OTN is a U.S. distributor of specialty pharmaceuticals. The acquisition of OTN expanded our existing specialty pharmaceutical distribution business. The acquisition was funded with cash on hand. Financial results of OTN are included within our Distribution Solutions segment.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed in the acquisition as of March 31, 2008:

<i>(In millions)</i>	
Accounts receivable	\$ 321
Inventory	93
Goodwill	257
Intangible assets	129
Deferred tax asset	43
Accounts payable	(318)
Other, net	6
Net assets acquired, less cash and cash equivalents	<u>\$ 531</u>

Approximately \$257 million of the preliminary purchase price allocation has been assigned to goodwill. Included in the purchase price allocation are acquired identifiable intangibles of \$119 million representing customer relationships with a weighted-average life of 9 years, developed technology of \$3 million with a weighted-average life of 4 years and trademarks and trade names of \$7 million with a weighted-average life of 5 years.

In 2007, we made the following acquisitions and investment:

- On January 26, 2007, we acquired all of the outstanding shares of Per-Se Technologies, Inc. (“Per-Se”) of Alpharetta, Georgia for \$28.00 per share in cash plus the assumption of Per-Se’s debt, or approximately \$1.8 billion in aggregate, including cash acquired of \$76 million. Per-Se is a leading provider of financial and administrative healthcare solutions for hospitals, physicians and retail pharmacies. The acquisition of Per-Se is consistent with the Company’s strategy of providing products that help solve clinical, financial and business processes within the healthcare industry. The acquisition was initially funded with cash on hand and through the use of an interim credit facility. In March 2007, we issued \$1 billion of long-term debt, with such net proceeds after offering expenses from the issuance, together with cash on hand, being used to fully repay borrowings outstanding under the interim credit facility (refer to Financial Note 10, “Long-Term Debt and Other Financing”). Financial results for Per-Se are primarily included within our Technology Solutions segment.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed in the acquisition as of March 31, 2008:

(In millions)

Accounts receivable	\$	107
Property and equipment		41
Other current and non-current assets		115
Goodwill		1,258
Intangible assets		471
Accounts payable		(8)
Other current liabilities		(126)
Deferred revenue		(30)
Long-term liabilities		(96)
Net assets acquired, less cash and cash equivalents	\$	1,732

Approximately \$1,258 million of the purchase price allocation has been assigned to goodwill. Included in the purchase price allocation are acquired identifiable intangibles of \$402 million representing customer relationships with a weighted-average life of 10 years, developed technology of \$56 million with a weighted-average life of 5 years, and trademark and trade names of \$13 million with a weighted-average life of 5 years.

In connection with the purchase price allocation, we have estimated the fair value of the support obligations assumed from Per-Se in connection with the acquisition. The estimated fair value of these obligations was determined utilizing a cost build-up approach. The cost build-up approach determines fair value by estimating the costs relating to fulfilling the obligations plus a normal profit margin. The sum of the costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume these obligations. As a result, in allocating the purchase price, we recorded an adjustment to reduce the carrying value of Per-Se's deferred revenue by \$17 million to \$30 million, which represents our estimate of the fair value of the obligation assumed.

- Our Technology Solutions segment acquired RelayHealth Corporation (“RelayHealth”) based in Emeryville, California. RelayHealth is a provider of secure online healthcare communication services linking patients, healthcare professionals, payors and pharmacies. This segment also acquired two other entities, one specializing in patient billing solutions designed to simplify and enhance healthcare providers’ financial interactions with their patients as well as a provider of integrated software for electronic health records, medical billing and appointment scheduling for independent physician practices. The total cost of these three entities was \$90 million, which was paid in cash. Goodwill recognized in these transactions amounted to \$63 million.
- Our Distribution Solutions segment acquired Sterling Medical Services LLC (“Sterling”) which is based in Moorestown, New Jersey. Sterling is a national provider and distributor of disposable medical supplies, health management services and quality management programs to the home care market. This segment also acquired a medical supply sourcing agent. The total cost of these two entities was \$95 million, which was paid in cash. Goodwill recognized in these transactions amounted to \$47 million.
- We contributed \$36 million in cash and \$45 million in net assets primarily from our Automated Prescription Systems business to Parata Systems LLC (“Parata”), in exchange for a significant minority interest in Parata. Parata is a manufacturer of pharmacy robotic equipment. In connection with the investment, we abandoned certain assets which resulted in a \$15 million charge to cost of sales and we incurred \$6 million of other expenses related to the transaction which were recorded within operating expenses. We did not recognize any additional gains or losses as a result of this transaction as we believe the fair value of our investment in Parata approximates the carrying value of consideration contributed to Parata. Our investment in Parata is accounted for under the equity method of accounting within our Distribution Solutions segment.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

In 2006, we made the following acquisitions:

- We acquired substantially all of the issued and outstanding stock of D&K Healthcare Resources, Inc. (“D&K”) of St. Louis, Missouri for an aggregate cash purchase price of \$479 million, including the assumption of D&K’s debt. D&K is primarily a wholesale distributor of branded and generic pharmaceuticals and over-the-counter health and beauty products to independent and regional pharmacies, primarily in the Midwest. The acquisition of D&K expanded our existing U.S. pharmaceutical distribution business. Approximately \$158 million of the purchase price has been assigned to goodwill. Included in the purchase price were acquired identifiable intangibles of \$43 million primarily representing customer lists and not-to-compete covenants which have an estimated weighted-average useful life of nine years. Financial results for D&K are included in our Distribution Solutions segment.
- We acquired all of the issued and outstanding shares of Medcon, Ltd. (“Medcon”), an Israeli company, for an aggregate purchase price of \$82 million. Medcon provides web-based cardiac image and information management services to healthcare providers. Approximately \$60 million of the purchase price was assigned to goodwill and \$20 million was assigned to intangibles which represent technology assets and customer lists which have an estimated weighted-average useful life of four years. Financial results for Medcon are included in our Technology Solutions segment.

During the last three years, we also completed a number of other smaller acquisitions and investments within both of our operating segments. Financial results for our business acquisitions have been included in our consolidated financial statements since their respective acquisition dates. Purchase prices for our business acquisitions have been allocated based on estimated fair values at the date of acquisition and, for certain recent acquisitions, may be subject to change as we continue to evaluate and implement various restructuring initiatives. Goodwill recognized for our business acquisitions is not expected to be deductible for tax purposes. Pro forma results of operations for our business acquisitions have not been presented because the effects were not material to the consolidated financial statements on either an individual or an aggregate basis.

3. Discontinued Operations

Results from discontinued operations were as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2008	2007	2006
Income (loss) from discontinued operations			
Acute Care	\$ 1	\$ (9)	\$ (13)
BioServices	-	-	2
Other	1	-	-
Income taxes	(1)	4	4
Total	<u>\$ 1</u>	<u>\$ (5)</u>	<u>\$ (7)</u>
Gain (loss) on sales of discontinued operations			
Acute Care	\$ -	\$ (49)	\$ -
BioServices	-	-	22
Other	-	10	-
Income taxes	-	(11)	(9)
Total	<u>\$ -</u>	<u>\$ (50)</u>	<u>\$ 13</u>
Discontinued operations, net of taxes			
Acute Care	\$ 1	\$ (66)	\$ (8)
BioServices	-	-	14
Other	-	11	-
Total	<u>\$ 1</u>	<u>\$ (55)</u>	<u>\$ 6</u>

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

In the second quarter of 2007, we sold our Distribution Solutions segment's Medical-Surgical Acute Care supply business to Owens & Minor, Inc. ("OMI") for net cash proceeds of approximately \$160 million. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the financial results of this business are classified as a discontinued operation for all periods presented in the accompanying consolidated financial statements. Revenues associated with the Acute Care business prior to its disposition were \$1,062 million for 2006 and \$597 million for the first half of 2007.

Financial results for 2007 for this discontinued operation include an after-tax loss of \$66 million, which primarily consists of an after-tax loss of \$61 million for the business' disposition and \$5 million of after-tax losses associated with operations, other asset impairment charges and employee severance costs. The after-tax loss of \$61 million for the business' disposition includes a \$79 million non-tax deductible write-off of goodwill, as further described below.

In connection with this divestiture, we allocated a portion of our Distribution Solutions segment's Medical-Surgical business' goodwill to the Acute Care business as required by SFAS No. 142, "Goodwill and Other Intangible Assets." The allocation was based on the relative fair values of the Acute Care business and the continuing businesses that are being retained by the Company. The fair value of the Acute Care business was determined based on the net cash proceeds resulting from the divestiture and the fair value of the continuing businesses. As a result, we allocated \$79 million of the segment's goodwill to the Acute Care business.

Additionally, as part of the divestiture, we entered into a transition services agreement ("TSA") with OMI under which we provided certain services to the Acute Care business during a transition period of approximately six months. Financial results from the TSA, as well as employee severance charges over the transition period, were recorded as part of discontinued operations. The continuing cash flows generated from the TSA were not material to our consolidated financial statements and the TSA was completed as of March 31, 2007.

In 2005, our Acute Care business entered into an agreement with a third party vendor to sell the vendor's proprietary software and services. The terms of the contract required us to prepay certain royalties. During the third quarter of 2006, we ended marketing and sale of the software under the contract. As a result of this decision, we recorded a \$15 million pre-tax charge in the third quarter of 2006 to write-off the remaining balance of the prepaid royalties.

In the second quarter of 2007, we also sold a wholly-owned subsidiary, Pharmaceutical Buyers Inc. ("PBI"), for net cash proceeds of \$10 million. The divestiture resulted in an after-tax gain of \$5 million resulting from the tax basis of the subsidiary exceeding its carrying value. Financial results of this business, which were previously included in our Distribution Solutions segment, have been presented as a discontinued operation for all periods presented in the accompanying consolidated financial statements. These results were not material to our consolidated financial statements.

The results for discontinued operations for 2007 also include an after-tax gain of \$6 million associated with the collection of a note receivable from a business sold in 2003 and the sale of a small business.

In the second quarter of 2006, we sold our wholly-owned subsidiary, McKesson BioServices Corporation ("BioServices"), for net cash proceeds of \$63 million. The divestiture resulted in an after-tax gain of \$13 million. Financial results for this business, which were previously included in our Distribution Solutions segment, have been presented as a discontinued operation for all periods presented in the accompanying consolidated financial statements. These results were not material to our consolidated financial statements.

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," financial results for these businesses have been classified as discontinued operations for all periods presented.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

4. Restructuring Activities

The following table summarizes the activity related to our restructuring liabilities for the three years ended March 31, 2008:

(In millions)	Distribution Solutions		Technology Solutions		Corporate	Total
	Severance	Exit-Related	Severance	Exit-Related	Severance	
Balance, March 31, 2005	\$ 1	\$ 4	\$ -	\$ 1	\$ 1	\$ 7
Expenses	(1)	-	-	1	-	-
Liabilities related to acquisition	10	30	-	-	-	40
Cash expenditures	(4)	(5)	-	(1)	(1)	(11)
Balance, March 31, 2006	6	29	-	1	-	36
Expenses	3	(1)	13	-	-	15
Liabilities related to acquisitions	-	(14)	8	4	-	(2)
Cash expenditures	(6)	(8)	(5)	-	-	(19)
Balance, March 31, 2007	3	6	16	5	-	30
Expenses	5	-	1	4	2	12
Asset impairments	-	3	-	4	-	7
Total charge	5	3	1	8	2	19
Liabilities related to acquisitions	6	1	11	1	-	19
Cash expenditures	(7)	-	(22)	(4)	-	(33)
Non-cash items	-	(3)	-	(4)	-	(7)
Balance, March 31, 2008	\$ 7	\$ 7	\$ 6	\$ 6	\$ 2	\$ 28

Restructuring Activities and Asset Impairment – Expenses

During 2008, we incurred \$19 million of restructuring expenses, which primarily consisted of:

- \$4 million of severance costs associated with the closure of two facilities within our Distribution Solutions segment,
- \$1 million and \$3 million of severance and asset impairments associated with the integration of OTN within our Distribution Solutions segment, and
- \$5 million of severance and exit-related costs and a \$4 million asset impairment charge for the write-off of capitalized software costs associated with the termination of a software project within our Technology Solutions segment.

During 2007, we recorded \$15 million of restructuring expenses, of which \$8 million pertained to employee severance costs associated with the reallocation of product development and marketing resources and the realignment of an international business within our Technology Solutions segment.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***Restructuring Activities – Liabilities Related to Acquisitions*

In connection with our OTN acquisition within our Distribution Solutions segment, we recorded other liabilities of \$6 million relating to employee severance costs. In connection with our Per-Se acquisition within our Technology Solutions segment, we recorded a total of \$19 million of employee severance costs and \$5 million of facility exit and contract termination costs in 2008 and 2007. In connection with our D&K acquisition within our Distribution Solutions segment, we recorded \$10 million of liabilities relating to employee severance costs and \$28 million for facility exit and contract termination costs during 2006. In 2007, in connection with the Company's investment in Parata, \$13 million of contract termination costs that were initially estimated as part of the D&K acquisition were extinguished and, as a result, the Company decreased goodwill and its restructuring liability.

With the exception of our OTN acquisition which we are currently evaluating certain restructuring initiatives, as of March 31, 2008, all actions related to the above noted restructuring activities have been substantially completed. Approximately 520 employees, consisting primarily of distribution, general and administrative staff, were terminated as part of our restructuring plans over the last three years. As of March 31, 2008, restructuring accruals of \$28 million, which primarily consist of employee severance costs and facility exit and contract termination costs, are anticipated to be disbursed from 2009 through 2015. Restructuring expenses were primarily recorded in operating expenses in our consolidated statements of operations. Accrued restructuring liabilities are included in other accrued liabilities in the consolidated balance sheets.

5. Other Income, Net

<i>(In millions)</i>	Years Ended March 31,		
	2008	2007	2006
Interest income	\$ 89	\$ 103	\$ 105
Equity in earnings, net	21	23	20
Other, net	11	6	14
Total	\$ 121	\$ 132	\$ 139

6. Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share is computed similar to basic earnings per share except that it reflects the potential dilution that could occur if dilutive securities or other obligations to issue common stock were exercised or converted into common stock.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The computations for basic and diluted earnings per share from continuing and discontinued operations are as follows:

<i>(In millions, except per share amounts)</i>	Years Ended March 31,		
	2008	2007	2006
Income from continuing operations	\$ 989	\$ 968	\$ 745
Interest expense on convertible junior subordinated debentures, net of tax	-	-	1
Income from continuing operations – diluted	989	968	746
Discontinued operations	1	(5)	(7)
Discontinued operations – gain (loss) on sales, net	-	(50)	13
Net income – diluted	<u>\$ 990</u>	<u>\$ 913</u>	<u>\$ 752</u>
Weighted average common shares outstanding:			
Basic	291	298	306
Effect of dilutive securities:			
Options to purchase common stock	5	6	9
Convertible junior subordinated debentures	-	-	1
Restricted stock	2	1	-
Diluted	<u>298</u>	<u>305</u>	<u>316</u>
Earnings per common share: ⁽¹⁾			
Basic			
Continuing operations	\$ 3.40	\$ 3.25	\$ 2.44
Discontinued operations	-	(0.02)	(0.02)
Discontinued operations – gain (loss) on sales, net	-	(0.17)	0.04
Total	<u>\$ 3.40</u>	<u>\$ 3.06</u>	<u>\$ 2.46</u>
Diluted			
Continuing operations	\$ 3.32	\$ 3.17	\$ 2.36
Discontinued operations	-	(0.02)	(0.02)
Discontinued operations – gain (loss) on sales, net	-	(0.16)	0.04
Total	<u>\$ 3.32</u>	<u>\$ 2.99</u>	<u>\$ 2.38</u>

(1) Certain computations may reflect rounding adjustments.

Approximately 8 million, 11 million and 11 million stock options were excluded from the computations of diluted net earnings per share in 2008, 2007 and 2006 as their exercise price was higher than the Company's average stock price.

7. Receivables, net

<i>(In millions)</i>	March 31,	
	2008	2007
Customer accounts	\$ 6,390	\$ 5,753
Other	984	953
Total	7,374	6,706
Allowances	(161)	(140)
Net	<u>\$ 7,213</u>	<u>\$ 6,566</u>

The allowances are primarily for uncollectible accounts and sales returns.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

8. Property, Plant and Equipment, Net

<i>(In millions)</i>	March 31,	
	2008	2007
Land	\$ 50	\$ 43
Building, machinery and equipment	1,652	1,463
Total property, plant and equipment	1,702	1,506
Accumulated depreciation	(927)	(822)
Property, plant and equipment, net	\$ 775	\$ 684

9. Goodwill and Intangible Assets, Net

Changes in the carrying amount of goodwill were as follows:

<i>(In millions)</i>	Distribution Solutions	Technology Solutions	Total
Balance, March 31, 2006	\$ 1,150	\$ 487	\$ 1,637
Goodwill acquired, net of purchase price adjustments	234	1,088	1,322
Translation adjustments	2	14	16
Balance, March 31, 2007	1,386	1,589	2,975
Goodwill acquired, net of purchase price adjustments	282	59	341
Translation adjustments	4	25	29
Balance, March 31, 2008	\$ 1,672	\$ 1,673	\$ 3,345

Information regarding intangible assets is as follows:

<i>(In millions)</i>	March 31,	
	2008	2007
Customer lists	\$ 725	\$ 593
Technology	176	161
Trademarks and other	61	56
Gross intangibles	962	810
Accumulated amortization	(301)	(197)
Intangible assets, net	\$ 661	\$ 613

Amortization expense of intangible assets was \$107 million, \$53 million and \$28 million for 2008, 2007 and 2006. The weighted average remaining amortization period for customer lists, technology, trademarks and other intangible assets at March 31, 2008 was: 8 years, 3 years and 8 years. Estimated future annual amortization expense of these assets is as follows: \$113 million, \$97 million, \$90 million, \$83 million and \$67 million for 2009 through 2013, and \$207 million thereafter. At March 31, 2008 and 2007, there were \$4 million and \$17 million of intangible assets not subject to amortization.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

10. Long-Term Debt and Other Financing

<i>(In millions)</i>	March 31,	
	2008	2007
6.40% Notes due March, 2008	\$ -	\$ 150
9.13% Series C Senior Notes due February, 2010	215	215
7.75% Notes due February, 2012	399	399
5.25% Notes due March, 2013	498	498
5.70% Notes due March, 2017	499	499
7.65% Debentures due March, 2027	175	175
ESOP related debt (see Financial Note 13)	4	14
Other	7	8
Total debt	1,797	1,958
Less current portion	2	155
Total long-term debt	\$ 1,795	\$ 1,803

In June 2007, we renewed our \$700 million committed accounts receivable sales facility. The facility was renewed under substantially similar terms to those previously in place. The renewed facility expires in June 2008. As of March 31, 2008 and 2007, no amounts were outstanding under the accounts receivable facility.

In June 2007, we renewed our existing \$1.3 billion five-year, senior unsecured revolving credit facility, which was scheduled to expire in September 2009. The new credit facility has terms and conditions substantially similar to those previously in place and expires in June 2012. Borrowings under this new credit facility bear interest based upon either a Prime rate or the London Interbank Offering Rate ("LIBOR"). As of March 31, 2008 and 2007, no amounts were outstanding under this facility.

In January 2007, we entered into a \$1.8 billion interim credit facility. The interim credit facility was a single-draw 364-day unsecured facility with terms substantially similar to those contained in the Company's existing revolving credit facility. We utilized \$1.0 billion of this facility to fund a portion of our purchase of Per-Se. On March 5, 2007, we issued \$500 million of 5.25% notes due 2013 and \$500 million of 5.70% notes due 2017. The notes are unsecured and interest is paid semi-annually on March 1 and September 1. The notes are redeemable at any time, in whole or in part, at our option. In addition, upon occurrence of both a change of control and a ratings downgrade of the notes to non-investment-grade levels, we are required to make an offer to redeem the notes at a price equal to 101% of the principal amount plus accrued interest. We utilized net proceeds, after offering expenses, of \$990 million from the issuance of the notes, together with cash on hand, to repay all amounts outstanding under the interim credit facility plus accrued interest.

In 2008, 2007 and 2006, we sold customer lease portfolio receivables for cash proceeds of \$16 million, \$5 million and \$60 million. Gains on sales of these receivables were not material.

The employee stock ownership program ("ESOP") debt bears interest at rates ranging from 8.6% fixed rate to approximately 93% of the LIBOR and is due in semi-annual and annual installments through 2010.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Our various borrowing facilities and certain long-term debt instruments are subject to covenants. Our principal debt covenant is our debt to capital ratio, which cannot exceed 56.5%. If we exceed this ratio, repayment of debt outstanding under the revolving credit facility and \$215 million of term debt could be accelerated. At March 31, 2008, this ratio was 22.7% and we were in compliance with all other covenants.

Convertible Junior Subordinated Debentures

In February 1997, we issued 5% Convertible Junior Subordinated Debentures (the “Debentures”) in an aggregate principal amount of \$206 million. The Debentures were purchased by McKesson Financing Trust (the “Trust”) with proceeds from its issuance of four million shares of preferred securities to the public and 123,720 common securities to us. The Debentures represented the sole assets of the Trust and bore interest at an annual rate of 5%, payable quarterly. These preferred securities of the Trust were convertible into our common stock at the holder’s option.

Holders of the preferred securities were entitled to cumulative cash distributions at an annual rate of 5% of the liquidation amount of \$50 per security. Each preferred security was convertible at the rate of 1.3418 shares of our common stock, subject to adjustment in certain circumstances. The preferred securities were to be redeemed upon repayment of the Debentures and were callable by us on or after March 4, 2000, in whole or in part, initially at 103.5% of the liquidation preference per share, and thereafter at prices declining at 0.5% per annum to 100% of the liquidation preference on and after March 4, 2007 plus, in each case, accumulated, accrued and unpaid distributions, if any, to the redemption date.

During the first quarter of 2006, we called for the redemption of the Debentures, which resulted in the exchange of the preferred securities for 5 million shares of our newly issued common stock.

11. Financial Instruments and Hedging Activities

At March 31, 2008 and 2007, the carrying amounts of cash and cash equivalents, restricted cash, marketable securities, receivables, drafts and accounts payable, and other liabilities approximated their estimated fair values because of the short maturity of these financial instruments. The carrying amounts and estimated fair values of our long-term debt were \$1,797 million and \$1,861 million at March 31, 2008 and \$1,958 million and \$2,036 million at March 31, 2007. The estimated fair value of our long-term debt was determined based on quoted market prices and may not be representative of actual values that could have been realized or that will be realized in the future.

In the normal course of business, we are exposed to interest rate changes and foreign currency fluctuations. We limit these risks through the use of derivatives such as interest rate swaps and forward contracts. In accordance with our policy, derivatives are only used for hedging purposes. We do not use derivatives for trading or speculative purposes.

12. Lease Obligations

We lease facilities and equipment under both capital and operating leases. Net assets held under capital leases included in property, plant and equipment were \$4 million and \$2 million at March 31, 2008 and 2007. Rental expense under operating leases was \$149 million, \$117 million and \$106 million in 2008, 2007 and 2006. We recognize rent expense on a straight-line basis over the term of the lease, taking into account, when applicable, lessor incentives for tenant improvements, periods where no rent payment is required and escalations in rent payments over the term of the lease. Deferred rent is recognized for the difference between the rent expense recognized on a straight-line basis and the payments made per the terms of the lease. Most real property leases contain renewal options and provisions requiring us to pay property taxes and operating expenses in excess of base period amounts.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

At March 31, 2008, future minimum lease payments and sublease rental income for years ending March 31 are:

<i>(In millions)</i>	Non-cancelable Operating Leases	Non-cancelable Sublease Rentals	Capital Leases
2009	\$ 114	\$ 3	\$ 1
2010	93	2	1
2011	78	2	-
2012	64	2	-
2013	40	1	-
Thereafter	99	1	-
Total minimum lease payments	<u>\$ 488</u>	<u>\$ 11</u>	2
Less amounts representing interest			-
Present value of minimum lease payments			<u>\$ 2</u>

13. Pension Benefits

We maintain a number of qualified and nonqualified defined benefit pension plans and defined contribution plans for eligible employees.

Defined Pension Benefit Plans

Eligible U.S. employees who were employed by the Company prior to December 31, 1996 are covered under the Company-sponsored defined benefit retirement plan. In 1997, we amended this plan to freeze all plan benefits based on each employee's plan compensation and creditable service accrued to that date. The Company has made no annual contributions since this plan was frozen. The benefits for this defined benefit retirement plan are based primarily on age of employees at date of retirement, years of service and employees' pay during the five years prior to retirement. We also have defined benefit pension plans for eligible Canadian and United Kingdom employees as well as a nonqualified supplemental defined benefit plan for certain U.S. executives, which is non-funded. We also assumed a frozen qualified defined benefit plan through our acquisition of Per-Se in 2007. This Per-Se plan was merged into our retirement plan in 2008. The measurement date for all of our pension plans is December 31.

The net periodic expense for our pension plans is as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2008	2007	2006
Service cost—benefits earned during the year	\$ 7	\$ 7	\$ 6
Interest cost on projected benefit obligation	31	27	26
Expected return on assets	(39)	(33)	(32)
Amortization of unrecognized actuarial loss, prior service costs and net transitional obligation	11	12	9
Settlement charges and other	4	4	-
Net periodic pension expense	<u>\$ 14</u>	<u>\$ 17</u>	<u>\$ 9</u>

The projected unit credit method is utilized for measuring net periodic pension expense over the employees' service life for the U.S. pension plans. Unrecognized actuarial losses exceeding 10% of the greater of the projected benefit obligation and the market value of assets are amortized straight-line over the average remaining future service periods.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Information regarding the changes in benefit obligations and plan assets for our pension plans is as follows:

<i>(In millions)</i>	March 31,	
	2008	2007
Change in benefit obligations		
Benefit obligation at beginning of year	\$ 552	\$ 485
Service cost	7	7
Interest cost	31	27
Actuarial losses (gains)	(8)	19
Benefit payments	(47)	(29)
Benefit obligations assumed through acquisition	-	37
Foreign exchange impact and other	8	6
Benefit obligation at end of year	<u>\$ 543</u>	<u>\$ 552</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 484	\$ 412
Actual return on plan assets	29	48
Employer and participant contributions	33	24
Benefits paid	(47)	(29)
Plan assets acquired through acquisition	-	28
Foreign exchange impact and other	2	1
Fair value of plan assets at end of year	<u>\$ 501</u>	<u>\$ 484</u>
Funded status at end of year ⁽¹⁾	\$ (39)	\$ (65)
Amounts recognized on the balance sheet		
Noncurrent assets	\$ 78	\$ 53
Current liabilities	(9)	(17)
Noncurrent liabilities	(108)	(101)
Total	<u>\$ (39)</u>	<u>\$ (65)</u>

(1) Includes \$3 million of employer contributions subsequent to our December 31, 2007 and 2006 measurement dates.

The accumulated benefit obligations for our pension plans were \$522 million at March 31, 2008 and \$525 million at March 31, 2007. The components of the amount recognized in accumulated other comprehensive income at March 31, 2008 and 2007 are as follows: net actuarial loss, \$111 million and \$118 million; net prior service cost, \$10 million and \$12 million; and net transitional obligations, \$2 million and \$2 million.

In 2009, we estimate that we will amortize \$2 million of prior service cost and \$6 million of actuarial loss for the pension plans from shareholders' equity to pension expense. Comparable 2008 amounts were \$2 million and \$9 million.

Projected benefit obligations relating to our unfunded U.S. plans were \$112 million and \$92 million at March 31, 2008 and 2007. Pension costs are funded based on the recommendations of independent actuaries.

Expected benefit payments for our pension plans are as follows: \$37 million, \$32 million, \$35 million, \$38 million and \$32 million for 2009 to 2013, and \$265 million for 2014 through 2018. Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service. Expected contributions to be made for our pension plans are \$22 million for 2009.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Weighted average asset allocations of the investment portfolio for our pension plans at December 31 and target allocations are as follows:

Assets Category	Target Allocation	Percentage of Fair Value of Total Plan Assets	
		2008	2007
U.S. equity securities	44%	42%	44%
International equity securities	15%	14%	16%
Fixed income	33%	35%	29%
Other	8%	9%	11%
Total	100%	100%	100%

We develop our expected long-term rate of return assumption based on the historical experience of our portfolio and the review of projected returns by asset class on broad, publicly traded equity and fixed-income indices. Our target asset allocation was determined based on the risk tolerance characteristics of the plan and, at times, may be adjusted to achieve our overall investment objective.

Weighted-average assumptions used to estimate the net periodic pension expense and the actuarial present value of benefit obligations were as follows:

	2008	2007	2006
Net periodic expense			
Discount rates	5.33%	5.35%	5.75%
Rate of increase in compensation	3.85	3.83	4.00
Expected long-term rate of return on plan assets	7.53	7.47	8.23
Benefit obligation			
Discount rates	6.18%	5.70%	5.56%
Rate of increase in compensation	4.01	3.97	3.97
Expected long-term rate of return on plan assets	8.04	8.09	8.11

Other Defined Benefit Plans

Under various U.S. bargaining unit labor contracts, we make payments into multi-employer pension plans established for union employees. We are liable for a proportionate part of the plans' unfunded vested benefits liabilities upon our withdrawal from the plan, however information regarding the relative position of each employer with respect to the actuarial present value of accumulated benefits and net assets available for benefits is not available. Contributions to the plans and amounts accrued were not material for the years ended March 31, 2008, 2007 and 2006.

Defined Contribution Plans

We have a contributory profit sharing investment plan ("PSIP") for U.S. employees not covered by collective bargaining arrangements. Eligible employees may contribute into the PSIP through an individual retirement savings account up to 20% of their monthly eligible compensation for pre-tax deferrals and up to 67% of compensation for catch-up contributions not to exceed Internal Revenue Service ("IRS") limits. The Company makes matching contributions in an amount equal to 100% of the employee's first 3% of pay deferred and 50% of the employee's deferral for the next 2% of pay deferred. The Company also may make an additional annual matching contribution for each plan year to enable participants to receive a full match based on their annual limit, effective 2008. The Company has historically provided for the PSIP contributions primarily with its common shares through its leveraged ESOP.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The ESOP has purchased an aggregate of 24 million shares of the Company's common stock since its inception. These purchases were financed by 10 to 20 year loans from or guaranteed by us. The ESOP's outstanding borrowings are reported as long-term debt of the Company and the related receivables from the ESOP are shown as a reduction of stockholders' equity. The loans are repaid by the ESOP from interest earnings on cash balances and common dividends on unallocated shares and Company cash contributions. The ESOP loan maturities and rates are identical to the terms of related Company borrowings. Stock is made available from the ESOP based on debt service payments on ESOP borrowings. After-tax ESOP expense and other contribution expense, including interest expense on ESOP debt, was \$8 million, \$8 million and \$7 million in 2008, 2007 and 2006. Approximately 1 million shares of common stock were allocated to plan participants in each of the years 2008, 2007 and 2006. At March 31, 2008, almost all of the 24 million common shares had been allocated to plan participants.

14. Postretirement Benefits

We maintain a number of postretirement benefits, primarily consisting of healthcare and life insurance ("welfare") benefits, for certain eligible U.S. employees. Eligible employees consist of those who retired before March 31, 1999 and those who retire after March 31, 1999, but were an active employee as of that date, after meeting other age-related criteria. We also provide postretirement benefits for certain U.S. executives. The measurement date for our postretirement welfare plan is December 31.

The net periodic expense for our postretirement welfare benefits is as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2008	2007	2006
Service cost—benefits earned during the year	\$ 2	\$ 2	\$ 2
Interest cost on projected benefit obligation	10	11	11
Amortization of unrecognized actuarial loss and prior service costs	4	16	20
Net periodic postretirement expense	\$ 16	\$ 29	\$ 33

Information regarding the changes in benefit obligations for our postretirement welfare plans is as follows:

<i>(In millions)</i>	March 31,	
	2008	2007
Change in benefit obligations		
Benefit obligation at beginning of year	\$ 183	\$ 213
Service cost	2	2
Interest cost	10	11
Plan amendments and other	5	-
Actuarial gain	(27)	(26)
Benefit payments	(16)	(17)
Benefit obligation at end of year	\$ 157	\$ 183

In 2009, we estimate that we will amortize \$13 million of actuarial gain for the other postretirement plans from shareholders' equity to other postretirement expense. The comparable 2008 amount was \$4 million of actuarial loss.

Other postretirement benefits are funded as claims are paid. Expected benefit payments for our postretirement welfare benefit plans, net of expected Medicare subsidy receipts of \$18 million, are as follows: \$15 million annually for 2009 to 2013, and \$70 million cumulatively for 2014 through 2018. Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service. Expected contributions to be made for our postretirement welfare benefit plans are \$15 million for 2009.

Weighted-average discount rates used to estimate postretirement welfare benefit expenses were 5.78%, 5.55% and 5.75% for 2008, 2007 and 2006. Weighted-average discount rates for the actuarial present value of benefit obligations were 6.19%, 5.78% and 5.55% for 2008, 2007 and 2006.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Actuarial gain or loss for the postretirement welfare benefit plan is amortized to income over a three-year period. The assumed healthcare cost trends used in measuring the accumulated postretirement benefit obligation were 10% and 12% for prescription drugs, 9% for medical and 7% for dental in 2008 and 2007. The healthcare cost trend rate assumption has a significant effect on the amounts reported. For 2008, 2007 and 2006, a one-percentage-point increase and a one-percentage-point decrease in the assumed healthcare cost trend rate would impact total service and interest cost components by approximately \$1 million to \$2 million and the postretirement benefit obligation by approximately \$12 million to \$15 million.

15. Income Taxes

(In millions)	Years Ended March 31,		
	2008	2007	2006
Income from continuing operations before income taxes			
U.S.	\$ 1,059	\$ 987	\$ 927
Foreign	398	310	244
Total income from continuing operations before income taxes	\$ 1,457	\$ 1,297	\$ 1,171

The provision for income taxes related to continuing operations consists of the following:

(In millions)	Years Ended March 31,		
	2008	2007	2006
Current			
Federal	\$ 189	\$ 71	\$ (14)
State and local	59	69	19
Foreign	22	22	16
Total current	270	162	21
Deferred			
Federal	178	204	361
State and local	16	(18)	38
Foreign	4	(19)	6
Total deferred	198	167	405
Income tax provision	\$ 468	\$ 329	\$ 426

In 2008, the IRS completed an examination of our consolidated income tax returns for 2000 to 2002 resulting in a signed Revenue Agent Report ("RAR"), which was approved by the Joint Committee on Taxation during the third quarter. The IRS and the Company have agreed to certain adjustments, primarily related to transfer pricing and income tax credits. As a result of the approved RAR, we recognized approximately \$25 million of net federal and state income tax benefits. We are in the process of amending state income tax returns for 2000 to 2002 to reflect the IRS settlement. We recorded the anticipated state tax impact of the IRS examination in our 2008 income tax provision and do not anticipate any material impact when the final amended state tax returns have been completed. In Canada, we received an assessment from the Canada Revenue Agency for a total of \$9 million related to transfer pricing for 2003. We plan to further pursue this issue and will appeal the assessment. We believe we have adequately provided for any potential adverse results for 2003 and future years. During 2008, we have also favorably concluded various foreign examinations, which resulted in the recognition of approximately \$4 million of income tax benefits. In nearly all jurisdictions, the tax years prior to 1999 are no longer subject to examination. We believe that we have made adequate provision for all remaining income tax uncertainties. Income tax expense for 2008 was also impacted by a non-tax deductible \$13 million increase in a legal reserve.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

In 2007, we recorded a credit to current income tax expense of \$83 million, which primarily pertained to our receipt of a private letter ruling from the IRS holding that our payment of approximately \$960 million to settle our Consolidated Securities Litigation Action (refer to Financial Note 17, “Other Commitments and Contingent Liabilities”) is fully tax-deductible. We previously established tax reserves to reflect the lack of certainty regarding the tax deductibility of settlement amounts paid in the Consolidated Securities Litigation Action and related litigation. In 2007, we also recorded \$24 million in income tax benefits arising primarily from settlements and adjustments with various taxing authorities and research and development investment tax credits from our Canadian operations.

In 2006, we made a \$960 million payment into an escrow account relating to the Consolidated Securities Litigation Action. This payment was deducted in our 2006 income tax returns and as a result, our current tax expense decreased and our deferred tax expense increased in 2006 primarily reflecting the utilization of the deferred tax assets associated with the Consolidated Securities Litigation Action. In 2006, we also recorded a \$14 million income tax expense, which primarily related to a basis adjustment in an investment and adjustments with various taxing authorities.

Significant judgments and estimates are required in determining the consolidated income tax provision. Although our major taxing jurisdictions are the U.S. and Canada, we are subject to income taxes in numerous foreign jurisdictions. Annually, we file a federal consolidated income tax return with the IRS, and over 1,100 returns with various state and foreign jurisdictions. Our income tax expense, deferred tax assets and liabilities reflect management’s best assessment of estimated future taxes to be paid.

The reconciliation between the Company’s effective tax rate on income from continuing operations and the statutory tax rate is as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2008	2007	2006
Income tax provision at federal statutory rate	\$ 510	\$ 454	\$ 410
State and local income taxes net of federal tax benefit	43	34	34
Foreign tax rate differential	(126)	(109)	(74)
Securities Litigation reserve	-	(83)	3
Unrecognized tax benefits and settlements	31	44	30
Nondeductible/nontaxable items	11	3	1
Other—net	(1)	(14)	22
Income tax provision	\$ 468	\$ 329	\$ 426

At March 31, 2008, undistributed earnings of our foreign operations totaling \$1,450 million were considered to be permanently reinvested. No deferred tax liability has been recognized for the remittance of such earnings to the U.S. since it is our intention to utilize those earnings in the foreign operations as well as to fund certain research and development activities for an indefinite period of time, or to repatriate such earnings when it is tax efficient to do so. The determination of the amount of deferred taxes on these earnings is not practicable because the computation would depend on a number of factors that cannot be known until a decision to repatriate the earnings is made.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Deferred tax balances consisted of the following:

<i>(In millions)</i>	March 31,	
	2008	2007
Assets		
Receivable allowances	\$ 57	\$ 55
Deferred revenue	124	215
Compensation and benefit-related accruals	286	231
Securities Litigation	-	15
Loss and credit carryforwards	566	525
Other	257	228
Subtotal	1,290	1,269
Less: valuation allowance	(27)	(25)
Total assets	\$ 1,263	\$ 1,244
Liabilities		
Basis difference for inventory valuation and other assets	\$ (1,097)	\$ (1,097)
Basis difference for fixed assets and systems development costs	(163)	(161)
Intangibles	(154)	(160)
Other	(141)	(106)
Total liabilities	(1,555)	(1,524)
Net deferred tax liability	\$ (292)	\$ (280)
Current net deferred tax liability	\$ (767)	\$ (614)
Long term net deferred tax asset	475	334
Net deferred tax liability	\$ (292)	\$ (280)

We have federal and state income tax net operating loss carryforwards of \$411 million and \$2,001 million which will expire at various dates from 2009 through 2028. We believe that it is more likely than not that the benefit from certain state net operating loss carryforwards may not be realized. In recognition of this risk, we have provided a valuation allowance of \$27 million on the deferred tax assets relating to these state net operating loss carryforwards. We have foreign income tax net operating loss carryforwards of \$86 million, which have indefinite lives.

We also have domestic income tax credit carryforwards of \$266 million, which are primarily alternative minimum tax credit carryforwards that have an indefinite life and foreign income tax credit carryforwards of \$3 million, which are Canadian research and development credit carryforwards that expire between 2025 and 2028.

We adopted the provisions of FIN No. 48, "Accounting for Uncertainty in Income Taxes" as of April 1, 2007, which resulted in a reduction of our retained earnings by \$46 million. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." This standard also provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The amount recognized is measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon effective settlements. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. At April 1, 2007, our "unrecognized tax benefits," defined as the aggregate tax effect of differences between tax return positions and the benefits recognized in our financial statements, amounted to \$465 million.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

The following table summarizes the activity related to our gross unrecognized tax benefits from March 31, 2007 to March 31, 2008:

<i>(In millions)</i>	Unrecognized Tax Benefits
Balance at March 31, 2007	\$ 465
Additions based on tax positions related to current year	58
Reductions based on settlements	(27)
Balance at March 31, 2008	<u>\$ 496</u>

Of the total \$496 million in unrecognized tax benefits at March 31, 2008, \$318 million would reduce income tax expense and the effective tax rate if recognized. We continue to report interest and penalties on tax deficiencies as income tax expense. At March 31, 2008, before any tax benefits, our accrued interest on unrecognized tax benefits amounted to \$130 million and we recognized \$31 million of interest expense, before any tax benefits, in our consolidated statements of operations during 2008. We have no amounts accrued for penalties. It is reasonably possible that audit resolutions and expiration of statutes of limitations could potentially reduce our unrecognized tax benefits by up to \$133 million during the next twelve months.

16. Financial Guarantees and Warranties*Financial Guarantees*

We have agreements with certain of our customers' financial institutions under which we have guaranteed the repurchase of inventory (primarily for our Canadian business) at a discount in the event these customers are unable to meet certain obligations to those financial institutions. Among other requirements, these inventories must be in resalable condition. Customer guarantees range from one to seven years and were primarily provided to facilitate financing for certain strategic customers. At March 31, 2008, the amounts of inventory repurchase guarantees and other customer guarantees were \$115 million and \$5 million of which a nominal amount had been accrued.

At March 31, 2008, we had commitments of \$2 million of cash contributions to our equity-held investments, for which no amounts had been accrued.

The expirations of the above noted financial guarantees and commitments are as follows: \$46 million, \$20 million, \$1 million, \$1 million and nil from 2009 through 2013 and \$54 million thereafter.

In addition, our banks and insurance companies have issued \$101 million of standby letters of credit and surety bonds on our behalf in order to meet the security requirements for statutory licenses and permits, court and fiduciary obligations, and our workers' compensation and automotive liability programs.

Our software license agreements generally include certain provisions for indemnifying customers against liabilities if our software products infringe on a third party's intellectual property rights. To date, we have not incurred any material costs as a result of such indemnification agreements and have not accrued any liabilities related to such obligations.

In conjunction with certain transactions, primarily divestitures, we may provide routine indemnification agreements (such as retention of previously existing environmental, tax and employee liabilities) whose terms vary in duration and often are not explicitly defined. Where appropriate, obligations for such indemnifications are recorded as liabilities. Because the amounts of these indemnification obligations often are not explicitly stated, the overall maximum amount of these commitments cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of divestiture, we have historically not made significant payments as a result of these indemnification provisions.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***Warranties*

In the normal course of business, we provide certain warranties and indemnification protection for our products and services. For example, we provide warranties that the pharmaceutical and medical-surgical products we distribute are in compliance with the Food, Drug and Cosmetic Act and other applicable laws and regulations. We have received the same warranties from our suppliers, which customarily are the manufacturers of the products. In addition, we have indemnity obligations to our customers for these products, which have also been provided to us from our suppliers, either through express agreement or by operation of law.

We also provide warranties regarding the performance of software and automation products we sell. Our liability under these warranties is to bring the product into compliance with previously agreed upon specifications. For software products, this may result in additional project costs, which are reflected in our estimates used for the percentage-of-completion method of accounting for software installation services within these contracts. In addition, most of our customers who purchase our software and automation products also purchase annual maintenance agreements. Revenue from these maintenance agreements is recognized on a straight-line basis over the contract period and the cost of servicing product warranties is charged to expense when claims become estimable. Accrued warranty costs were not material to the consolidated balance sheets.

17. Other Commitments and Contingent Liabilities

In addition to commitments and obligations in the ordinary course of business, we are subject to various claims, other pending and potential legal actions for damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of our business. In accordance with SFAS No. 5, "Accounting for Contingencies", we record a provision for a liability when management believes that it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We believe we have adequate provisions for any such matters. Management reviews these provisions at least quarterly and adjusts these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Because litigation outcomes are inherently unpredictable, these assessments often involve a series of complex assessments by management about future events and can rely heavily on estimates and assumptions.

We are party to the significant legal proceedings described below. Based on our experience, we believe that any damage amounts claimed in the specific matters discussed below are not meaningful indicators of our potential liability. We believe that we have valid defenses to these legal proceedings and are defending the matters vigorously. Nevertheless, the outcome of any litigation is inherently uncertain. We are currently unable to estimate the remaining possible losses in the unresolved legal proceedings described below. Should any one of these proceedings against us, or a combination of more than one, be successful, or should we determine to settle any or a combination of these matters on unfavorable terms, we may be required to pay substantial sums, become subject to the entry of an injunction, or be forced to change the manner in which we operate our business, which could have a material adverse impact on our financial position or results of operations.

I. Accounting Litigation

Following the announcements by McKesson in April, May and July of 1999 that McKesson had determined that certain software sales transactions in its Information Solutions segment, formerly HBO & Company ("HBOC") and now known as McKesson Information Solutions LLC, were improperly recorded as revenue and reversed, ninety-two lawsuits were filed against McKesson, HBOC, certain of McKesson's or HBOC's current or former officers or directors, and other defendants, including Bear Stearns & Co. Inc. ("Bear Stearns") and Arthur Andersen LLP ("Andersen"). Although almost all of these cases (collectively "the Securities Litigation") have now been resolved, certain matters remain pending as more fully described below.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***Federal Actions*

On January 12, 2005, we announced that we reached an agreement to settle the previously-reported action in the Northern District of California captioned: *In re McKesson HBOC, Inc. Securities Litigation*, (No. C-99-20743 RMW) (the “Consolidated Securities Litigation Action”). In general, we agreed to pay the settlement class a total of \$960 million in cash. On February 24, 2006, the Honorable Ronald M. Whyte signed a Final Judgment and Order of Dismissal (the “Judgment”), in which the Court gave its final approval to the settlement of the Consolidated Securities Litigation Action and dismissed on the merits and with prejudice all claims asserted against the Company, HBOC, and Defendants’ Released Persons (as that term is defined in the Judgment). On March 23, 2006, Defendant Bear Stearns filed an appeal of the Judgment to the United States Court of Appeals for the Ninth Circuit. The appeal by Bear Stearns challenged certain provisions of the settlement that restricted Bear Stearns’ ability to bring certain claims in the future against the Company, HBOC and certain other persons released in the settlement.

On September 28, 2007, the trial court in the Consolidated Securities Litigation Action preliminarily approved a settlement by Bear Stearns of all claims against it by the class. As part of that settlement with the class, Bear Stearns agreed to dismiss its appeal from the Company’s settlement, as well as to dismiss its New York State Court action against the Company, as described below, and to fully release the Company as to all claims related to the Securities Litigation. In consideration of these Bear Stearns obligations, the Company agreed to pay \$10 million to fund the Bear Stearns class settlement. The Bear Stearns appeal was dismissed on October 9, 2007, making the Company’s settlement of the Consolidated Securities Litigation Action final and binding on both the Company and the class. On January 18, 2008, Judge Whyte gave his final approval to the Bear Stearns class action settlement.

On August 11, 2005, the Company and HBOC filed a complaint against Andersen and former Andersen partner Robert A. Putnam (“Putnam”) in San Francisco Superior Court captioned *McKesson Corporation et al. v Andersen et al.*, (No. 05-443987), which Putnam subsequently removed to the United States District Court for the Northern District of California. Upon removal, the case was assigned to Judge Whyte and given N.D. Cal. Case No. 05-04020 RMW. In its complaint, as amended on March 28, 2006, McKesson asserted claims against Andersen for negligent misrepresentation, breach of contract, indemnity and contribution, and HBOC asserted claims against Andersen for breach of contract, professional negligence, equitable indemnity or declaratory relief, and contribution. On March 16, 2006, Andersen filed its own action against McKesson and HBOC in federal court in San Jose captioned *Andersen v. McKesson Corporation et al.*, (No. C-06-02035-JW). In its complaint, Andersen asserted claims against McKesson and HBOC for fraud, negligent misrepresentation, breach of contract, breach of the covenant of good faith and fair dealing, equitable indemnity and declaratory relief, in connection with Andersen’s prior audits and reviews of HBOC’s financial results. In the second quarter of 2008, the Company, Andersen and Putnam reached a global settlement of all claims related to the Securities Litigation, including those involved in these two lawsuits; and the lawsuits have been dismissed with prejudice.

The previously-reported action captioned *Cater v. McKesson Corporation et al.*, (No. C-00-20327-RMW) has also been settled.

Based on the above described settlements and actions, there are no longer any Securities Litigation matters pending in federal court.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***State Actions*

Twenty-four actions were filed in various state courts in California, Colorado, Delaware, Georgia, Louisiana and Pennsylvania (the “State Actions”). All of these actions have been settled or otherwise resolved, except for the following two individual actions, originally filed in Georgia Superior Court: *Holcombe T. Green and HTG Corp. v. McKesson, Inc. et al.*, (Georgia Superior Court, Fulton County, Case No. 2002-CV-48407); and *Hall Family Investments, L.P. v. McKesson, Inc. et al.* (Georgia Superior Court, Fulton County, Case No. 2002-CV-48612). The *Green* and *Hall Family Investments, L.P.* actions were voluntarily dismissed by plaintiffs on April 26, 2006 in the Georgia Superior Court and were re-filed in Georgia State Court, *Holcombe T. Green and HTG Corp. v. McKesson Corporation, et al.* (Georgia State Court, Fulton County, Case No. 06-VS-096767-D) and *Hall Family Investments, L.P. v. McKesson Corporation, et al.* (Georgia State Court, Fulton County, Case No. 06-VS-096763-F). The allegations in these actions are substantially similar to those in the Consolidated Securities Litigation Action. Plaintiffs allege claims of fraud and deceit; additionally, plaintiff Green seeks indemnification in connection with a lawsuit, now settled, which had been filed by the McKesson Corporation Profit Sharing Investment Plan against McKesson Corporation and for other unspecified losses. Plaintiffs seek actual and punitive damages, attorneys’ fees and costs of suit in amounts unspecified in the complaint. The Company and HBOC have answered the complaints in each of these actions, generally denying the allegations and any liability to plaintiffs. In April 2007, we filed motions to disqualify the *Green* and *Hall Family Investments, L.P.* damages experts, who had opined that plaintiffs incurred approximately \$150 million in actual damages, and for summary judgment. On December 13, 2007, the trial judge denied those motions. On January 3, 2008, following certification by the trial court of an appeal from her rulings on the disqualification and summary judgment motions, we applied to the Georgia Court of Appeals, seeking acceptance of an interlocutory appeal from the trial court rulings, and on January 29, 2008, the Court of Appeals granted that application. No briefing schedule for that appeal has been set.

As previously reported, in December of 2005, Bear Stearns filed a complaint captioned, *Bear Stearns & Co., Inc v. McKesson Corporation*, (Case No. 604304/5), against the Company in the trial court for the State and County of New York. Bear Stearns alleged that the Company’s entry into the settlement of the Consolidated Securities Litigation Action, without providing a full release for Bear Stearns in that settlement, was a breach of the engagement letter under which Bear Stearns advised the Company in connection with its acquisition of HBOC. As described above, the Bear Stearns federal class settlement required that Bear Stearns dismiss its New York state court action against the Company upon final approval of the Bear Stearns settlement. Accordingly, Bear Stearns dismissed this action following Judge Whyte’s January 18, 2008 order granting final approval to the Bear Stearns settlement.

II. Average Wholesale Price Litigation

On June 2, 2005, a civil class action complaint was filed against the Company in the United States District Court, District of Massachusetts captioned: *New England Carpenters Health Benefits Fund et al., v. First DataBank, Inc. and McKesson Corporation*, (Civil Action No. 05-11148) (“*New England Carpenters I*”). Named plaintiffs are health benefit plans. The Complaint alleges that in late 2001 and early 2002 the Company and co-defendant First DataBank (“FDB”) conspired to improperly raise the published Average Wholesale Price (“AWP”) of certain prescription drugs, and that this alleged conduct resulted in higher drug reimbursement payments by plaintiffs and others similarly situated. Plaintiffs purported to represent a class of third party payors who paid any portion of the price of certain prescription drugs based upon the AWP’s published by FDB during the period January 1, 2002 to March 15, 2005.

The complaint alleges claims against the Company based on the federal Racketeer Influenced and Corrupt Organizations Act (“RICO”), 18 U.S.C. § 1962(c); California’s Business and Professions Code sections 17200 and 17500, and common law civil conspiracy and seeks injunctive relief, as well as actual, punitive and treble damages, attorneys’ fees and costs, in an unspecified amount. On December 29, 2005, the Company filed a response to the plaintiffs’ complaint, denying the allegations and asserting numerous affirmative defenses.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

From July 2006 through November 2007, the plaintiffs filed three amended complaints, which together sought to add a class of consumers that made percentage co-payments (“consumer co-pay class”) for certain prescription drugs and a class of uninsured consumers who paid usual and customary prices for the prescription drugs from August 1, 2001 through the present (“U&C class”), to modify and extend the purported class period pertaining to third party payors from August 1, 2001 to March 15, 2005, and to add an alternative count under various state consumer protection statutes. The Company has responded to all amended complaints, denying the allegations and asserting numerous affirmative defenses. No trial date has been set with respect to the third party payor class or consumer co-pay class. Although the district court has not yet certified any alleged U&C class, a trial date of January 26, 2009 is presently set with respect to the alleged U&C class.

On March 19, 2008, the district court denied a motion filed by the Company to dismiss and for judgment on the pleadings with respect to the RICO claims asserted in the third amended complaint. Also on the same date, the district court entered an order certifying: (1) a consumer co-pay class for all purposes for the period August 1, 2001 to May 15, 2005; (2) the third party payor class for liability and equitable relief for the period from August 1, 2001 to May 15, 2005; and (3) the third party payor class for damages for the period August 1, 2001 to December 31, 2003. Although the complaints do not specify the amount of damages sought for either of the two certified classes, prior to the court’s March 19, 2008 ruling plaintiffs filed a damages report claiming damages of \$6.8 billion for the third party payor class and \$214 million for the consumer co-pay class, which in the case of the third party payors represented damages for a period approximately sixteen months longer than the period certified on March 19, 2008 by the court. The plaintiffs will submit a new damages report which we expect will conform to the court’s shorter class period and other issues addressed in the opinion.

On April 2, 2008, the Company petitioned the U.S. Court of Appeals for the First Circuit to allow immediate appeal of the district court’s March 19, 2008 class certification order. Plaintiffs’ filed a response to the petition on April 14, 2008. The First Circuit has not yet acted on the petition.

On December 10, 2007, the same plaintiffs named in the *New England Carpenters I* civil action filed a civil class action complaint under federal and state antitrust laws against the Company in the United States District Court, District of Massachusetts, captioned: *New England Carpenters Health Benefits Fund et al., v. McKesson Corporation*, (Civil Action No. 1:07-CV-12277-PBS) (“*New England Carpenters II*”). The *New England Carpenters II* action purports to be brought on behalf of the same three classes and is based on the same set of operative facts as the *New England Carpenters I* action. The Complaint purports to state claims against the Company for violation of the Sherman Act, 15 U.S.C. § 1, California Business & Professions Code § 16700 *et seq.*, and Antitrust Laws for Indirect Purchasers for seventeen individual states. Plaintiffs seek declaratory relief, as well as actual and treble damages, attorneys’ fees and costs in unspecified amounts. The Company moved to dismiss the complaint in *New England Carpenters II* on January 31, 2007. That motion was argued, but not decided, on April 17, 2008. At the conclusion of the hearing, the court stayed further activity in the case. McKesson has not yet answered the complaint. No trial date or pretrial schedule has been set.

In June 2007, the Company was informed that a *qui tam* action by an unknown relator was previously filed in the United States District Court in the District of New Jersey, purportedly on behalf of the United States, twelve states (California, Delaware, Florida, Hawaii, Illinois, Louisiana, Massachusetts, Nevada, New Mexico, Tennessee, Virginia and Texas) and the District of Columbia, against the Company and seven other defendants unaffiliated with the Company. The Company was advised that the United States and the various states are considering whether to intervene in the suit, but none has done so to date. The suit thus remains inactive and under seal, and the suit has not been served on the Company. The Company was informed further that an amended complaint filed under seal in this matter alleges multiple claims against the Company and several other parties, including claims under the federal False Claims Act and the various states’ and District of Columbia’s false claims statutes. The claims arise out of alleged manipulation of AWP by defendants from 1993 through at least 2005, which the plaintiffs claim caused them to pay more than they should have in reimbursement for prescription drugs covered by various government programs that base reimbursement payments on AWP. The complaint seeks damages on behalf of the United States, the twelve named states and the District of Columbia, including treble damages and civil penalties as provided under the various False Claims Act statutes, as well as attorneys’ fees and costs, all in an unspecified amount. The Company has been cooperating with the investigation.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***III. Product Liability Litigation*

The Company is a defendant in approximately 575 cases alleging that the plaintiffs were injured by Vioxx, an anti-inflammatory drug manufactured by Merck & Company (“Merck”). The cases typically assert causes of action for strict liability, negligence, breach of warranty and false advertising for improper design, testing, manufacturing, and warnings relating to the manufacture and distribution of Vioxx. None of the cases involving the Company is scheduled for trial. The Company has tendered each of these cases to Merck and has reached an agreement with Merck to defend and indemnify the Company.

The Company is a defendant in approximately 3 cases alleging that the plaintiffs were injured because they took the drugs known as fen-phen, the term commonly used to describe the weight-loss combination of fenfluramine or dexfenfluramine with phentermine. The Company has been named as a defendant along with several other defendants in 41 cases and has accepted the tender of one of its customers named as a defendant in one additional case. The cases are pending in state courts in California and Mississippi and in state and federal courts in Florida and New York, and typically assert causes of action for strict liability, negligence, breach of warranty, false advertising and unfair business practices for improper design, testing, manufacturing and warnings relating to the distribution and/or prescription of fen-phen. The Company has tendered each of these cases, including the three remaining matters, to its suppliers and has reached an agreement with its major supplier to defend and indemnify the Company and its customers.

We, through our former McKesson Chemical Company division, are named in approximately 450 cases involving the alleged distribution of asbestos. These cases typically involve either single or multiple plaintiffs claiming personal injuries and unspecified compensatory and punitive damages as a result of exposure to asbestos-containing materials. Pursuant to an indemnification agreement signed at the time of the 1987 sale of McKesson Chemical Company to what is now called Univar USA Inc. (“Univar”), we have tendered each of these actions to Univar. Univar has raised questions concerning the extent of its obligations under the indemnification agreement. Univar continues to defend the Company in some of these cases, but since February 2005 has been rejecting tenders and accordingly, the Company is incurring defense costs in connection with the more recently served actions. The Company believes that Univar remains obligated under the terms of the indemnification agreement. The Company has filed an arbitration demand against Univar pursuant to the indemnification agreement seeking a determination that the liability for these cases is Univar’s responsibility. Arbitrators have been identified and agreed upon, but no date is yet set for the arbitration. In addition to its indemnification rights against Univar, the Company believes that portions of these claims are covered by insurance and is pursuing that coverage.

IV. Other Litigation and Claims

On May 3, 2004, judgment was entered against us and one of our employees in the action captioned: *Roby v. McKesson HBOC, Inc. et al.* (Superior Court for Yolo County, California, Case No. CV01-573). Former employee Charlene Roby (“Roby”) brought claims for wrongful termination, disability discrimination and disability-based harassment against McKesson and a claim for disability-based harassment against her former supervisor. The jury awarded Roby compensatory damages against McKesson and against her supervisor in the total amount of \$4 million, and punitive damages in the amount of \$15 million against McKesson. Following post-trial motions, the trial court reduced the amount of compensatory damages against McKesson to \$3 million; the punitive damages awarded against both defendants and the compensatory damages awarded against the individual employee defendant were not reduced. We filed a Notice of Appeal, seeking reduction or reversal of the compensatory and punitive damage awards and the award of attorneys’ fees. On December 26, 2006, the Court of Appeal for the Third Appellate District of California issued its decision reversing the verdict for harassment against Roby’s supervisor, reducing the compensatory damages from \$3 million to \$1 million, and reducing punitive damages from \$15 million to \$2 million. Following the rejection of Roby’s petition for rehearing before the Court of Appeals, plaintiff petitioned for review by the California Supreme Court, which was granted on April 18, 2007. Roby has filed her opening brief; the Company has filed its brief in opposition, and plaintiff is scheduled to file her reply brief in May, 2008. A hearing will thereafter be scheduled by the Court.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

On July 14, 2006, an action was filed in the United States District Court for the Eastern District of New York against McKesson, two McKesson employees, four other drug wholesalers and sixteen drug manufacturers, *RxUSA v. Alcon Laboratories et al.*, (Case No. 06-CV-3447-MJT). Plaintiff alleges that we, along with various other defendants, unlawfully engaged in monopolization and attempted monopolization of the sale and distribution of pharmaceutical products in violation of the federal antitrust laws, as well as in violation of New York State's Donnelly Act. We are also alleged to have violated the Sarbanes-Oxley Act of 2002; and our employees are alleged to have violated the Donnelly Act, the Sarbanes-Oxley Act and Sections 1962 (c) and (d) of the civil RICO statute. Plaintiff alleges generally that defendants have individually, and in concert with one another, taken actions to create and maintain a monopoly and to exclude secondary wholesalers, such as the plaintiff, from the wholesale pharmaceutical industry. The complaint seeks monetary damages of approximately \$1.6 billion, and also seeks treble damages, attorneys' fees and injunctive relief. All defendants have filed motions to dismiss all claims. The motions were fully briefed and submitted to the trial court on March 13, 2007. The court has not yet decided any of the motions and has not set a date to hear oral argument on the motions. Discovery has been stayed subject to disposition of the motions to dismiss. No trial date has been set.

Between 1976 and 1987, our former McKesson Chemical Company division operated a facility in Santa Fe Springs, California. We have been actively remediating the contamination at this site since 1994. Angeles Chemical Company ("Angeles") conducted similar repackaging activities at its property adjacent to the Company's site between 1976 and 2000. In late 2001, Angeles filed an action against McKesson *Angeles Chemical Company v. McKesson Corporation, et al.*, (United States District Court for the Central District of California Case No. 01-10532-TJH) claiming that McKesson's contamination had migrated to Angeles' property. The causes of action in the current complaint purport to state claims based on the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (as amended, the "Superfund" law or its state law equivalent) and the Resource Conservation and Recovery Act, as well as allege various state law claims, such as nuisance, trespass, negligence, defamation, interference with prospective advantage, unfair business practices, and for declaratory relief, among others. Angeles seeks injunctive relief, as well as compensatory and punitive damages, attorneys' fees and costs. We have answered the complaint, denying liability and asserting affirmative defenses. Fact discovery is closed, expert discovery is ongoing and a pretrial conference is scheduled for June 23, 2008, at which time a trial date is expected to be set.

V. Government Investigations and Subpoenas

The health care industry is highly regulated, and government agencies continue to increase their scrutiny over certain practices affecting government programs. From time to time, the Company receives subpoenas or requests for information from various government agencies. The Company generally responds to such subpoenas and requests in a cooperative, thorough and timely manner. These responses sometimes require considerable time and effort, and can result in considerable costs being incurred by the Company. Such subpoenas and requests also can lead to the assertion of claims or the commencement of legal proceedings against the Company and other members of the health care industry, as well as to settlements. Examples of such requests and subpoenas include the following: (1) we are in the process of responding to a subpoena from the U.S. Attorney's Office ("USAO") in Massachusetts seeking documents relating to the Company's business relationship with a long-term care pharmacy organization; (2) we have responded to a request from the Federal Trade Commission for certain documents as part of a non-public investigation to determine whether the Company may have engaged in anti-competitive practices with other wholesale pharmaceutical distributors in order to limit competition for provider customers seeking distribution services; (3) we have received and responded to a Civil Investigative Demand from the Attorney General's Office of the State of Tennessee apparently in connection with an investigation into possible violations of the Tennessee Medicaid False Claims Act in connection with repackaged pharmaceuticals; (4) we have responded to a subpoena from the office of the Attorney General of the State of New York requesting documents and other information concerning our participation in the secondary or "alternative source" market for pharmaceutical products; (5) we have received and have responded, or are in the process of responding to subpoenas from a number of Offices of state Attorney Generals or other state agencies, including requests from New York, Wisconsin, and Alabama, relating to the pricing, including First DataBank AWP, for branded and generic drugs; (6) we are cooperating in an investigation by the USAO for the Northern District of Mississippi into whether it will intervene in a civil *qui tam* action filed by an unknown private relator against the Company and other defendants, and we are informed that the action purports to allege violations of the anti-kickback and/or false claims statutes in connection with the provision of Medicare claims billing services to multi-facility nursing home customers; and (7) we are responding to a subpoena, issued by the USAO in Houston, which seeks documents relating to billing and collection

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

services performed by our subsidiary, Per-Se, for certain healthcare operations associated with the University of Texas from 2004 to the present.

On May 2, 2008, we entered into two agreements which resolved previously disclosed claims by the Drug Enforcement Administration (“DEA”) and six USAOs that between 2005 and 2007, certain of our pharmaceutical distribution centers fulfilled customer orders for select controlled substances, which orders were not adequately reported to the DEA. The settlements were achieved consistent with the previously disclosed \$13 million reserve established for these matters. These settlements resolve all administrative and civil claims arising out of the investigations.

As previously reported, on January 26, 2007, we acquired Per-Se, which became a wholly owned subsidiary of McKesson. Prior to its acquisition, Per-Se had publicly disclosed two pending Securities and Exchange Commission (“SEC”) investigations. Those investigations are the following: (1) In March 2005, the SEC issued a subpoena to Per-Se pursuant to a formal order of investigation which we believe relates to allegations of wrongdoing made in 2003 by a former Per-Se employee. Those allegations were the subject of a prior investigation by the Per-Se Audit Committee and an outside accounting firm. Per-Se has produced documents and provided testimony to the SEC. By letter dated June 26, 2007, the SEC informed the Company that its investigation of Per-Se was closed, and that it did not intend to recommend any enforcement action against Per-Se as a result of that investigation. (2) In December 2004, the SEC issued a formal order of investigation relating to accounting matters at NDCHealth Corporation (“NDCHealth”), a then public company which was acquired by Per-Se in January 2006, prior to our acquisition of Per-Se. In March 2005, NDCHealth restated its financial statements for the fiscal years ended May 28, 2004, May 30, 2003 and May 31, 2002, and for the fiscal quarters ended August 22, 2004 and August 29, 2005, to correct errors relating to certain accounting matters. NDCHealth produced documents to the SEC and fully cooperated with the SEC in its investigation. The SEC has taken testimony from a number of current and former NDCHealth employees. There has been no activity in this matter for some time and the SEC has taken no action against NDCHealth or its successor to date.

VI. Environmental Matters

Primarily as a result of the operation of our former chemical businesses, which were fully divested by 1987, we are involved in various matters pursuant to environmental laws and regulations. We have received claims and demands from governmental agencies relating to investigative and remedial actions purportedly required to address environmental conditions alleged to exist at seven sites where we, or entities acquired by us, formerly conducted operations and we, by administrative order or otherwise, have agreed to take certain actions at those sites, including soil and groundwater remediation. In addition, we are one of multiple recipients of a New Jersey Department of Environmental Protection Agency directive and a separate United States Environmental Protection Agency directive relating to potential natural resources damages (“NRD”) associated with one of these seven sites. Although the Company’s potential allocation under either directive cannot be determined at this time, we have agreed to participate with a potentially responsible party (“PRP”) group in the funding of an NRD assessment, the costs of which are reflected in the aggregate estimates set forth below.

Based on a determination by our environmental staff, in consultation with outside environmental specialists and counsel, the current estimate of reasonably possible remediation costs for these seven sites is \$10 million, net of approximately \$2 million that third parties have agreed to pay in settlement or we expect, based either on agreements or nonrefundable contributions which are ongoing, to be contributed by third parties. The \$10 million is expected to be paid out between April 2008 and March 2028. Our estimated liability for these environmental matters has been accrued in the accompanying consolidated balance sheets.

In addition, we have been designated as a PRP under the Superfund law for environmental assessment and cleanup costs as the result of our alleged disposal of hazardous substances at 18 sites. With respect to these sites, numerous other PRPs have similarly been designated and, while the current state of the law potentially imposes joint and several liability upon PRPs, as a practical matter costs of these sites are typically shared with other PRPs. Our estimated liability at those 18 sites is approximately \$1 million. The aggregate settlements and costs paid by us in Superfund matters to date have not been significant. The accompanying consolidated balance sheets include this environmental liability.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***VII. Other Matters*

We are involved in various other litigation and governmental proceedings, not described above, that arise in the normal course of business. While it is not possible to determine with certainty the ultimate outcome or the duration of any such litigation or governmental proceedings, we believe based on current knowledge and the advice of our counsel that such litigation and proceedings will not have a material impact on our financial position or results of operations.

18. Stockholders' Equity

Each share of the Company's outstanding common stock is permitted one vote on proposals presented to stockholders and is entitled to share equally in any dividends declared by the Company's Board of Directors (the "Board").

Share repurchase plans: The Board approved share repurchase plans in October 2003, August 2005, December 2005 and January 2006 which permitted the Company to repurchase up to a total of \$1.0 billion (\$250 million per plan) of the Company's common stock. Under these plans, we repurchased 19 million shares for \$958 million during 2006. During 2007, we repurchased the remaining available shares under the January 2006 plan, fully utilizing all of these repurchase plans.

In April and July 2006, the Board approved two new share repurchase plans which permitted the Company to repurchase up to an additional \$1.0 billion (\$500 million per plan) of the Company's common stock. During 2007, we repurchased a total of 20 million shares for \$1.0 billion. As a result of these repurchases, we effectively completed all of the 2007 share repurchase plans.

In April and September 2007, the Board approved two new plans to repurchase up to \$2.0 billion of the Company's common stock (\$1.0 billion per plan). In 2008, we repurchased a total of 28 million shares for \$1,686 million, fully utilizing the April 2007 plan, leaving \$314 million remaining on the September 2007 plan. In April 2008, the Board approved a new plan to repurchase an additional \$1.0 billion of the Company's common stock. Stock repurchases may be made from time-to-time in open market or private transactions.

2005 Stock Plan (the "2005 Stock Plan"): The 2005 Stock Plan was adopted by the Board on May 25, 2005 and approved by the Company's stockholders on July 25, 2005. The 2005 Stock Plan initially provided for the grant of up to 13 million shares in the form of nonqualified stock options, incentive stock options, restricted stock awards, restricted stock unit awards, stock appreciation rights, performance shares and other share-based awards to employees, officers and directors of the Company. The 2005 Stock Plan replaced several other plans (the "Legacy Plans") and the remaining 11 million shares available for issuance under the Legacy Plans were cancelled, although awards under those plans remain outstanding.

In July 2007, the Company's stockholders amended the 2005 Stock Plan to increase the number of shares of common stock reserved for issuance under the 2005 Stock Plan by 15 million shares to an aggregate of 28 million shares. As of March 31, 2008, 16 million shares remain available for grant under the 2005 Stock Plan. As a result of acquisitions, we currently have 5 other option plans under which no further awards have been made since the date of acquisition.

2000 Employee Stock Purchase Plan (the "ESPP"): The Company also has an ESPP under which 11 million shares have been authorized for issuance. On July 25, 2007, the Company's stockholders approved an amendment to the ESPP under which the number of shares of common stock reserved for issuance was increased by 5 million shares to an aggregate of 16 million shares. Eligible employees may purchase a limited number of shares of the Company's common stock at a discount of up to 15% of the market value at certain plan-defined dates. In each year of 2008, 2007 and 2006, 1 million shares were issued under the ESPP. At March 31, 2008, 6 million shares were available for issuance under the ESPP.

As previously discussed, during the first quarter of 2006, we called for the redemption of the Debentures, which resulted in the exchange of the preferred securities for 5 million shares of our newly issued common stock.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)****19. Share-Based Payment**

We provide share-based compensation for our employees, officers and non-employee directors, including stock options, an employee stock purchase plan, restricted stock ("RS"), restricted stock units ("RSUs") and performance-based restricted stock units ("PeRSUs") (collectively, "share-based awards.") On April 1, 2006, we adopted SFAS No. 123(R), as discussed in Financial Note 1, "Significant Accounting Policies." Accordingly, we began to recognize compensation expense for the fair value of share-based awards granted, modified, repurchased or cancelled from April 1, 2006 forward. Compensation expense is recognized for the portion of the awards that is ultimately expected to vest. For the unvested portion of awards issued prior to and outstanding as of April 1, 2006, the expense is recognized at the grant-date fair value as the remaining requisite service is rendered. We recognize compensation expense on a straight-line basis over the requisite service period for those awards with graded vesting and service conditions. For the awards with performance conditions, we recognize the expense on an accelerated basis.

We adopted SFAS No. 123(R) using the modified prospective method and therefore have not restated prior period financial statements. Prior to adopting SFAS No. 123(R), we accounted for our employee share-based compensation plans using the intrinsic value method under APB Opinion No. 25. This standard generally did not require recognition of compensation expense for the majority of our share-based awards except for RS and RSUs. In addition, as required under APB Opinion No. 25, we previously recognized forfeitures as they occurred.

We develop an estimate of the number of share-based awards which will ultimately vest primarily based on historical experience. The estimated forfeiture rate established upon grant is re-assessed throughout the requisite service period. As required, the forfeiture estimates will be adjusted to reflect actual forfeitures when an award vests. The actual forfeitures in the future reporting periods could be materially higher or lower than our current estimates. The weighted-average forfeiture rate is approximately 6% at March 31, 2008. As a result, the future share-based compensation expense may differ from the Company's historical amounts.

The compensation expense recognized under SFAS No. 123(R) has been classified in the statements of operations or capitalized on the balance sheets in the same manner as cash compensation paid to our employees. There was no material share-based compensation expense capitalized as part of the balance sheets at March 31, 2008 and 2007. In addition, SFAS No. 123(R) requires that the benefits of realized tax deductions in excess of previously recognized tax benefits on compensation expense be reported as a financing cash flow rather than an operating cash flow, as was done under APB Opinion No. 25.

In conjunction with the adoption of SFAS No. 123(R), in 2007, we elected the "short-cut" method for calculating the beginning balance of the additional paid-in capital pool ("APIC pool") related to the tax effects of share-based compensation. Under this method, a simplified calculation is applied in establishing the beginning APIC pool balance as well as determining the future impact on the APIC pool and our consolidated statements of cash flows relating to the tax effects of share-based compensation. The election of this accounting policy did not have a material impact on our consolidated financial statements.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Impact on Net Income

The components of share-based compensation expense and the related tax benefit are shown in the following table:

<i>(In millions, except per share amounts)</i>	Years Ended March 31,		
	2008	2007	2006
RSU and RS ⁽¹⁾	\$ 50	\$ 22	\$ 16
PeRSUs ⁽²⁾	22	24	-
Stock options	11	7	-
Employee stock purchase plan	8	7	-
Share-based compensation expense	91	60	16
Tax benefit for share-based compensation expense ⁽³⁾	(31)	(20)	(6)
Share-based compensation expense, net of tax ⁽⁴⁾	\$ 60	\$ 40	\$ 10
Impact of share-based compensation:			
Earnings per share			
Diluted	\$ 0.20	\$ 0.13	\$ 0.03
Basic	0.21	0.13	0.03

- (1) Substantially all of the 2008 expense was the result of our 2007 PeRSUs that have been converted to RSUs in 2008 due to the attainment of goals during the 2007 performance period.
- (2) Represents estimated compensation expense for PeRSUs that are conditional upon attaining performance objectives during the current year's performance period. These PeRSUs are expected to be granted in May 2008.
- (3) Income tax expense is computed based on applicable tax jurisdictions. Additionally, a portion of pre-tax compensation expense is not tax-deductible.
- (4) No material share-based compensation expense was included in Discontinued Operations.

I. SFAS No. 123 Pro Forma Information for 2006

As described in Financial Note 1, prior to April 1, 2006 we accounted for our employee share-based compensation plans using the intrinsic value method under APB Opinion No. 25. Had compensation expense for our employee share-based compensation been recognized based on the fair value method, consistent with the provisions of SFAS No. 123, net income and earnings per share would have been as follows:

<i>(In millions, except per share amounts)</i>	Year Ended March 31, 2006
Net income, as reported	\$ 751
Compensation expense, net of tax:	
APB Opinion No. 25 expense included in net income	10
SFAS No. 123 expense	(66)
Pro forma net income	\$ 695
Earnings per common share:	
Diluted – as reported	\$ 2.38
Diluted – pro forma	2.20
Basic – as reported	2.46
Basic – pro forma	2.27

In 2006 and 2005, we granted 5 million and 6 million employee stock options, substantially all of which vested on or before March 31, 2006. The shortened vesting schedules at grant were approved by the Compensation Committee of the Company's Board of Directors ("Compensation Committee") for employee retention purposes and in anticipation of the requirements of SFAS No. 123(R). Prior to 2005, stock options typically vested over a four year period. Accordingly, SFAS No. 123 compensation expense for the 2006 employee stock options that were fully vested prior to April 1, 2006 is reflected on the pro forma results above, but not recognized in our earnings after the adoption of SFAS No. 123(R).

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***II. Stock Plans*

The 2005 Plan provides our employees, officers and non-employee directors share-based long-term incentives. The 2005 Plan permits the granting of stock options, RS, RSUs, PeRSUs and other share-based awards. Under the 2005 Plan, 13 million shares were initially authorized for issuance and 15 million additional shares were authorized on July 27, 2007. As of March 31, 2008, 16 million shares remain available for future grant. The 2005 Plan replaced the following three plans in advance of their expirations: 1999 Stock Option and Restricted Stock Plan, the 1997 Directors' Equity Compensation and Deferral Plan and the 1998 Canadian Incentive Plan (collectively, the "Legacy Plans"). The aggregate remaining 11 million authorized shares under the Legacy Plans were cancelled, although awards under those plans remain outstanding. The 2005 Plan is now the Company's only plan for providing share-based incentive compensation to employees and non-employee directors of the Company and its affiliates.

In anticipation of the requirements of SFAS No. 123(R), the Compensation Committee reviewed our long-term compensation program for key employees across the Company. As a result, beginning in 2006, reliance on options was reduced with more long-term incentive value delivered by grants of PeRSUs and performance-based cash compensation.

III. Stock Options

Stock options are granted at not less than fair market value and those options granted under the 2005 Plan have a contractual term of seven years. Prior to 2005, stock options typically vested over a four-year period and had a contractual term of ten years. As noted above, in 2006 and 2005, we provided shortened vesting schedules to 2006 and 2005 employee stock options upon grant. Options granted in 2008 have a seven-year contractual life and generally follow the four-year vesting schedule. We expect option grants in 2009 and future years will have the same contractual life and vesting schedule as 2008 option grants. Stock options under the Legacy Plans, which are substantially vested, generally have a ten-year contractual life.

Compensation expense for stock options is recognized on a straight-line basis over the requisite service period and is based on the grant-date fair value for the portion of the awards that is ultimately expected to vest. We continue to use the Black-Scholes model to estimate the fair value of our stock options. Once the fair value of an employee stock option value is determined, current accounting practices do not permit it to be changed, even if the estimates used are different from actual. The option pricing model requires the use of various estimates and assumptions, as follows:

- Expected stock price volatility is based on a combination of historical volatility of our common stock and implied market volatility. We believe that this market-based input provides a better estimate of our future stock price movements and is consistent with emerging employee stock option valuation considerations. Through 2008, our expected stock price volatility assumption reflected a constant dividend yield during the expected term of the option.
- Expected dividend yield is based on historical experience and investors' current expectations.
- The risk-free interest rate for periods within the expected life of the option is based on the constant maturity U.S. Treasury rate in effect at the time of grant.
- The expected life of the options is determined based on historical option exercise behavior data, and also reflects the impact of changes in contractual life of current option grants compared to our historical grants.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Weighted-average assumptions used to estimate the fair value of employee stock options were as follows:

	Years Ended March 31,		
	2008	2007	2006
Expected stock price volatility	24%	27%	36%
Expected dividend yield	0.4%	0.5%	0.5%
Risk-free interest rate	5%	5%	4%
Expected life (in years)	5	5	6

The following is a summary of options outstanding at March 31, 2008:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Options Outstanding At Year End (In millions)	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Options Exercisable at Year End (In millions)	Weighted-Average Exercise Price
\$ 13.67 - \$ 27.35	1	2	\$ 21.46	1	\$ 21.35
\$ 27.36 - \$ 41.02	13	4	33.94	13	33.93
\$ 41.03 - \$ 54.70	4	4	45.92	3	45.31
\$ 54.71 - \$ 68.37	1	6	62.48	-	66.27
\$ 68.38 - \$ 82.04	6	1	73.15	6	73.15
\$ 82.05 - \$ 95.72	1	-	90.74	1	90.74
	26	3	48.59	24	48.10

The following table summarizes stock option activity during 2008, 2007 and 2006:

(In millions, except per share data)	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ⁽²⁾
Outstanding, March 31, 2005	59	\$ 40.37		
Granted	5	44.93		
Exercised	(17)	31.15		
Cancelled and forfeited	(1)	69.40		
Outstanding, March 31, 2006	46	43.38		
Granted	1	48.13		
Exercised	(11)	33.71		
Outstanding, March 31, 2007	36	46.32	4	\$ 601
Granted	1	62.12		
Exercised	(9)	36.43		
Cancelled and forfeited	(2)	69.35		
Outstanding, March 31, 2008	26	48.59	3	\$ 298
Vested and expected to vest ⁽¹⁾	26	48.27	3	298
Exercisable, March 31, 2008	24	48.10	3	292

(1) The number of options expected to vest takes into account an estimate of expected forfeitures.

(2) The aggregate intrinsic value is calculated as the difference between the period-end market price of the Company's common stock and the option exercise price, times the number of "in-the-money" option shares.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The following table provides data related to all stock option activity:

<i>(In millions, except per share data)</i>	Years Ended March 31,		
	2008	2007	2006
Weighted-average grant date fair value per stock option	\$ 17.90	\$ 15.43	\$ 18.26
Aggregate intrinsic value on exercise	\$ 220	\$ 204	\$ 278
Cash received upon exercise	\$ 309	\$ 354	\$ 538
Tax benefits realized related to exercise	\$ 83	\$ 74	\$ 106
Total fair value of shares vested	\$ 8	\$ 4	\$ 89
Total compensation cost, net of estimated forfeitures, related to unvested stock options not yet recognized, pre-tax	\$ 25	\$ 18	NA
Weighted-average period in years over which stock option compensation cost is expected to be recognized	1	2	NA

NA – Not applicable as stock option compensation cost was not generally recognized under APB Opinion No. 25 in 2006.

IV. RS, RSUs and PeRSUs

RS and RSUs, which entitle the holder to receive, at the end of a vesting term, a specified number of shares of the Company's common stock, are accounted for at fair value at the date of grant. The fair value of RS and RSUs under our stock plans is determined by the product of the number of shares that are expected to vest and the grant date market price of the Company's common stock. The Compensation Committee determines the vesting terms at the time of grant. These awards generally vest in four years. The fair value of RS and RSUs with graded vesting and service conditions is expensed on a straight-line basis over the requisite service period. RS contains certain restrictions on transferability and may not be transferred until such restrictions lapse.

Non-employee directors receive an annual grant of up to 5,000 RSUs, which vest immediately, and which are expensed upon grant. However, payment of any shares is delayed until the director is no longer performing services for the Company. At March 31, 2008, 54,000 RSUs for our directors are vested, but shares have not been issued.

PeRSUs are RSUs for which the number of RSUs awarded may be conditional upon the attainment of one or more performance objectives over a specified period. Vesting of such awards ranges from one to three-year periods following the end of the performance period and may follow the graded or cliff method of vesting.

PeRSUs are accounted for as variable awards until the performance goals are reached and the grant date is established. The fair value of PeRSUs is determined by the product of the number of shares eligible to be awarded and expected to vest, and the market price of the Company's common stock, commencing at the inception of the requisite service period. During the performance period, the PeRSUs are re-valued using the market price and the performance modifier at the end of a reporting period. At the end of the performance period, if the goals are attained, the award is classified as a RSU and is accounted for on that basis. The fair value of PeRSUs is expensed on an accelerated basis, over the requisite service period of four years. For RS and RSUs with service conditions, we have elected to amortize the expense on a straight-line basis.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The following table summarizes RS and RSU activity during 2008, 2007 and 2006:

<i>(In millions, except per share data)</i>	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested, March 31, 2005	1	33.99
Granted	-	47.06
Nonvested, March 31, 2006	1	38.01
Granted	1	49.56
Nonvested, March 31, 2007	2	45.18
Granted	1	61.92
Nonvested, March 31, 2008	3	54.13

The following table provides data related to RS and RSU activity:

<i>(In millions)</i>	Years Ended March 31,		
	2008	2007	2006
Total fair value of shares vested	\$ 20	\$ 5	\$ 11
Total compensation cost, net of estimated forfeitures, related to nonvested RSU awards not yet recognized, pre-tax ⁽¹⁾	\$ 49	\$ 32	\$ 45
Weighted-average period in years over which RSU cost is expected to be recognized	1	2	3

(1) Compensation cost in 2006 did not reflect any forfeiture assumptions as required under APB Opinion No. 25.

In May 2007, the Compensation Committee approved 1 million PeRSU target share units representing the base number of awards that could be granted, if goals are attained, and would be granted in the first quarter of 2009 (the “2008 PeRSU”). These target share units are not included in the table above as they have not been granted in the form of a RSU. As of March 31, 2008, the total compensation cost, net of estimated forfeitures, related to nonvested 2008 PeRSUs not yet recognized was approximately \$44 million, pre-tax (based on the period-end market price of the Company’s common stock), and the weighted-average period over which the cost is expected to be recognized is 2 years.

In accordance with the provisions of SFAS No. 128, “Earnings per Share,” the 2008 PeRSUs are included in the calculation of diluted weighted average shares for the year ended March 31, 2008 as the performance goals have been achieved.

V. Employee Stock Purchase Plan (“ESPP”)

The ESPP allows eligible employees to purchase shares of our common stock through payroll deductions. The deductions occur over three-month purchase periods and the shares are then purchased at 85% of the market price at the end of each purchase period. Employees are allowed to terminate their participation in the ESPP at any time during the purchase period prior to the purchase of the shares, and any amounts accumulated during that period are refunded.

The 15% discount provided to employees on these shares is included in compensation expense. The funds outstanding at the end of a quarter are included in the calculation of diluted weighted average shares outstanding. These amounts have not been significant.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)****20. Related Party Balances and Transactions**

Notes receivable outstanding from certain of our current and former officers and senior managers totaled \$16 million and \$25 million at March 31, 2008 and 2007. These notes related to purchases of common stock under our various employee stock purchase plans. The notes bear interest at rates ranging from 4.7 % to 7.1 % and were due at various dates through February 2004. Interest income on these notes is recognized only to the extent that cash is received. These notes, which are included in other capital in the consolidated balance sheets, were issued for amounts equal to the market value of the stock on the date of the purchase and are at full recourse to the borrower. At March 31, 2008, the value of the underlying stock collateral was \$10 million. The collectability of these notes is evaluated on an ongoing basis. As a result, we recorded net credits of \$2 million and \$9 million in 2007 and 2006 based on changes in price of the underlying stock collateral. At March 31, 2008 and 2007, we provided a reserve of approximately \$6 million for the outstanding notes. Other receivable balances held with related parties, consisting of loans made to certain officers and senior managers and an equity-held investment, at March 31, 2008 and 2007 amounted to \$1 million.

In 2008, 2007 and 2006 we incurred \$10 million, \$8 million and \$7 million of annual rental expense paid to an equity-held investment. In addition, in 2007 and 2006 we purchased \$3 million of services per year from an equity-held investment. At March 31, 2008, we had a \$7 million loan receivable from an equity-held investment. The loan bears interest at 7.9%.

21. Segments of Business

Beginning with the first quarter of 2008, we report our operations in two operating segments: McKesson Distribution Solutions and McKesson Technology Solutions. This change resulted from a realignment of our businesses to better coordinate our operations with the needs of our customers. The factors for determining the reportable segments included the manner in which management evaluated the performance of the Company combined with the nature of the individual business activities. We evaluate the performance of our operating segments based on operating profit before interest expense, income taxes and results from discontinued operations. In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," all prior period amounts are reclassified to conform to the 2008 segment presentation.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

The Distribution Solutions segment distributes ethical and proprietary drugs, medical-surgical supplies and equipment, and health and beauty care products throughout North America. We have combined two of our former segments known as our Pharmaceutical Solutions and Medical-Surgical Solutions segments into this new segment, which reflects the increasing synergies the Company seeks through combined activities and best-practice process improvements. This segment also provides specialty pharmaceutical solutions for biotech and pharmaceutical manufacturers, sells pharmacy software and provides consulting, outsourcing and other services. This segment includes a 49% interest in Nadro, S.A. de C.V. (“Nadro”), the leading pharmaceutical distributor in Mexico and a 39% interest in Parata, which sells automated pharmaceutical dispensing systems to retail pharmacies.

The Technology Solutions segment (formerly known as our Provider Technologies segment) delivers enterprise-wide clinical, patient care, financial, supply chain, strategic management software solutions, pharmacy automation for hospitals, as well as connectivity, outsourcing and other services, to healthcare organizations. We have added our Payor group of businesses, which includes our InterQual® and clinical auditing and compliance software businesses, and our disease and medical management programs to this segment. The change to move our Payor group to this segment from our former Pharmaceutical Solutions segment reflects our decision to more closely align this business with the strategy of our Technology Solutions segment, that is to create value by promoting connectivity, economic alignment and transparency of information between payors and providers. The segment’s customers include hospitals, physicians, homecare providers, retail pharmacies and payors from North America, the United Kingdom, Ireland, other European countries, Australia, New Zealand and Israel.

Revenues for our Technology Solutions segment are classified in one of three categories: services, software and software systems and hardware. Service revenues primarily include fees associated with installing our software and software systems, as well as revenues associated with software maintenance and support, remote processing, disease and medical management, and other outsourcing and professional services. Software and software systems revenues primarily include revenues from licensing our software and software systems, including the segment’s clinical auditing and compliance and InterQual® businesses.

Our Corporate segment includes expenses associated with Corporate functions and projects, certain employee benefits and the results of certain joint venture investments. Corporate expenses are allocated to the operating segments to the extent that these items can be directly attributable to the segment.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Financial information relating to the reportable operating segments is presented below:

(In millions)	Years Ended March 31,		
	2008	2007	2006
Revenues			
Distribution Solutions ⁽¹⁾			
U.S. pharmaceutical direct distribution & services	\$ 60,436	\$ 54,127	\$ 51,730
U.S. pharmaceutical sales to customers' warehouses	27,668	27,555	25,462
Subtotal	88,104	81,682	77,192
Canada pharmaceutical distribution & services	8,106	6,692	5,910
Medical-Surgical distribution & services	2,509	2,364	2,037
Total Distribution Solutions	98,719	90,738	85,139
Technology Solutions			
Services	2,240	1,537	1,217
Software and software systems	591	536	476
Hardware	153	166	151
Total Technology Solutions	2,984	2,239	1,844
Total	\$ 101,703	\$ 92,977	\$ 86,983
Operating profit ⁽²⁾			
Distribution Solutions ^{(3) (4)}	\$ 1,483	\$ 1,395	\$ 1,250
Technology Solutions	319	206	187
Total	1,802	1,601	1,437
Corporate	(208)	(211)	(127)
Securities Litigation charge (credit)	5	6	(45)
Interest Expense	(142)	(99)	(94)
Income from continuing operations before income taxes	\$ 1,457	\$ 1,297	\$ 1,171
Depreciation and amortization ⁽⁵⁾			
Distribution Solutions	\$ 144	\$ 126	\$ 117
Technology Solutions	180	123	105
Corporate	47	46	40
Total	\$ 371	\$ 295	\$ 262
Expenditures for long-lived assets ⁽⁶⁾			
Distribution Solutions	\$ 96	\$ 57	\$ 87
Technology Solutions	54	42	24
Corporate	45	27	55
Total	\$ 195	\$ 126	\$ 166
Segment assets, at year end			
Distribution Solutions	\$ 18,382	\$ 16,429	\$ 14,869
Technology Solutions	3,797	3,642	1,738
Total	22,179	20,071	16,607
Corporate			
Cash and cash equivalents	1,362	1,954	2,139
Other	1,062	1,918	2,215
Total	\$ 24,603	\$ 23,943	\$ 20,961

(1) Revenues derived from services represent less than 1% of this segment's 2008, 2007 and 2006 revenues.

(2) Includes \$21 million, \$23 million and \$20 million of net earnings from equity investments in 2008, 2007 and 2006.

(3) Operating profit for 2008, 2007 and 2006 includes \$14 million, \$10 million and \$95 million representing our share of settlements of antitrust class action lawsuits brought against certain drug manufacturers. These settlements were recorded as reductions to cost of sales within our consolidated statements of operations in our Distribution Solutions segment.

(4) Operating profit for 2007 includes an \$11 million credit to income due to an adjustment to a legal reserve and for 2006, includes a \$15 million credit to income due to a recovery of a previously reserved customer account.

(5) Includes amortization of intangibles, capitalized software held for sale and capitalized software for internal use.

(6) Long-lived assets consist of property, plant and equipment.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Revenues and property, plant and equipment by geographic areas were as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2008	2007	2006
Revenues			
United States	\$ 93,389	\$ 86,026	\$ 80,868
International	8,314	6,951	6,115
Total	<u>\$ 101,703</u>	<u>\$ 92,977</u>	<u>\$ 86,983</u>
Property, plant and equipment, net, at year end			
United States	\$ 695	\$ 606	\$ 591
International	80	78	72
Total	<u>\$ 775</u>	<u>\$ 684</u>	<u>\$ 663</u>

International operations primarily consist of our operations in Canada, the United Kingdom, Ireland, other European countries, Asia Pacific and Israel. We also have an equity-held investment (Nadro) in Mexico. Net revenues were attributed to geographic areas based on the customers' shipment locations.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

22. Quarterly Financial Information (Unaudited)

<i>(In millions, except per share amounts)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Fiscal 2008					
Revenues	\$ 24,528	\$ 24,450	\$ 26,494	\$ 26,231	\$ 101,703
Gross profit	1,177	1,181	1,204	1,447	5,009
Income after income taxes					
Continuing operations	\$ 236	\$ 247	\$ 201	\$ 305	\$ 989
Discontinued operations	(1)	-	-	2	1
Total	<u>\$ 235</u>	<u>\$ 247</u>	<u>\$ 201</u>	<u>\$ 307</u>	<u>\$ 990</u>
Earnings per common share					
Diluted					
Continuing operations	\$ 0.77	\$ 0.83	\$ 0.68	\$ 1.04	\$ 3.32
Discontinued operations	-	-	-	0.01	-
Total	<u>\$ 0.77</u>	<u>\$ 0.83</u>	<u>\$ 0.68</u>	<u>\$ 1.05</u>	<u>\$ 3.32</u>
Basic					
Continuing operations	\$ 0.79	\$ 0.85	\$ 0.69	\$ 1.07	\$ 3.40
Discontinued operations	-	-	-	0.01	-
Total	<u>\$ 0.79</u>	<u>\$ 0.85</u>	<u>\$ 0.69</u>	<u>\$ 1.08</u>	<u>\$ 3.40</u>
Cash dividends per common share	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.24
Market prices per common share					
High	\$ 63.90	\$ 62.01	\$ 68.43	\$ 68.40	\$ 68.43
Low	57.72	53.45	56.30	51.08	51.08
Fiscal 2007					
Revenues	\$ 23,315	\$ 22,386	\$ 23,111	\$ 24,165	\$ 92,977
Gross profit	996	1,024	1,061	1,251	4,332
Income after income taxes					
Continuing operations	\$ 184	\$ 287	\$ 240	\$ 257	\$ 968
Discontinued operations	-	(58)	3	-	(55)
Total	<u>\$ 184</u>	<u>\$ 229</u>	<u>\$ 243</u>	<u>\$ 257</u>	<u>\$ 913</u>
Earnings per common share					
Diluted					
Continuing operations	\$ 0.60	\$ 0.94	\$ 0.79	\$ 0.85	\$ 3.17
Discontinued operations	-	(0.19)	0.01	-	(0.18)
Total	<u>\$ 0.60</u>	<u>\$ 0.75</u>	<u>\$ 0.80</u>	<u>\$ 0.85</u>	<u>\$ 2.99</u>
Basic					
Continuing operations	\$ 0.61	\$ 0.96	\$ 0.81	\$ 0.87	\$ 3.25
Discontinued operations	-	(0.19)	0.01	-	(0.19)
Total	<u>\$ 0.61</u>	<u>\$ 0.77</u>	<u>\$ 0.82</u>	<u>\$ 0.87</u>	<u>\$ 3.06</u>
Cash dividends per common share	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.24
Market prices per common share					
High	\$ 52.95	\$ 55.10	\$ 54.39	\$ 59.53	\$ 59.53
Low	44.60	45.23	47.38	50.80	44.60

McKESSON CORPORATION

FINANCIAL NOTES (Concluded)

23. Subsequent Event

In April 2008, we entered into an agreement to acquire McQueary Brothers Drug Company, Inc. (“McQueary Brothers”), of Springfield, Missouri for approximately \$190 million. McQueary Brothers is a regional distributor of pharmaceutical, health, and beauty products to independent and regional chain pharmacies in the Midwestern U.S. This acquisition will expand our existing U.S. pharmaceutical distribution business. The acquisition is expected to close in the first quarter of 2009, subject to customary closing conditions including regulatory review and will be funded with cash on hand. When completed, financial results for McQueary Brothers will be included within our Distribution Solutions segment.

McKESSON CORPORATION

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

John H. Hammergren
Chairman, President and
Chief Executive Officer,
McKesson Corporation

Andy D. Bryant
Executive Vice President and
Chief Administrative Officer,
Intel Corporation

Wayne A. Budd
Senior Counsel,
Goodwin Procter LLP

Alton F. Irby III
Chairman and Founding Partner,
London Bay Capital

M. Christine Jacobs
Chairman of the Board, President, and
Chief Executive Officer,
Theragenics Corporation

Marie L. Knowles
Executive Vice President and
Chief Financial Officer, Retired,
Atlantic Richfield Company

David M. Lawrence M.D.
Chairman of the Board and Chief Executive Officer, Retired,
Kaiser Foundation Health Plan, Inc., and
Kaiser Foundation Hospitals

Edward A. Mueller
Chairman of the Board and Chief Executive Officer,
Qwest Communications International, Inc.

James V. Napier
Chairman of the Board, Retired
Scientific-Atlanta, Inc.

Jane E. Shaw, Ph.D.
Chairman of the Board and Chief Executive Officer, Retired
Aerogen, Inc.

CORPORATE OFFICERS

John H. Hammergren
Chairman, President and
Chief Executive Officer

Jeffrey C. Campbell
Executive Vice President and
Chief Financial Officer

Paul C. Julian
Executive Vice President,
Group President

Paul E. Kirincic
Executive Vice President, Human Resources

Nicholas A. Loiacono
Vice President and Treasurer

Marc E. Owen
Executive Vice President, Corporate Strategy
and Business Development

Pamela J. Pure
Executive Vice President,
President, McKesson Technology Solutions

Nigel A. Rees
Vice President and Controller

Laureen E. Seeger
Executive Vice President, General Counsel
and Secretary

Randall N. Spratt
Executive Vice President,
Chief Information Officer

McKESSON CORPORATION

CORPORATE INFORMATION

Common Stock

McKesson Corporation common stock is listed on the New York Stock Exchange (ticker symbol MCK) and is quoted in the daily stock tables carried by most newspapers.

Stockholder Information

BNY MELLON Shareowner Services, 480 Washington Boulevard, Newport Office Center VII, 29th Floor, Jersey City, NJ 07310 acts as transfer agent, registrar, dividend-paying agent and dividend reinvestment plan agent for McKesson Corporation stock and maintains all registered stockholder records for the Company. For information about McKesson Corporation stock or to request replacement of lost dividend checks, stock certificates, 1099-DIV's, or to have your dividend check deposited directly into your checking or savings account, stockholders may call BNY MELLON Shareowner Services 's telephone response center at (866) 216-0306, weekdays 9:00 a.m. to 5:00 p.m., ET. For the hearing impaired call (888) 269-5221. BNY MELLON Shareowner Services also has a Web site: <http://www.melloninvestor.com/isd> – that stockholders may use 24 hours a day to request account information.

Dividends and Dividend Reinvestment Plan

Dividends are generally paid on the first business day of January, April, July and October. McKesson Corporation's Dividend Reinvestment Plan offers stockholders the opportunity to reinvest dividends in common stock and to purchase additional shares of common stock. Stock in an individual's Dividend Reinvestment Plan is held in book entry at the Company's transfer agent, BNY MELLON Shareowner Services. For more information, or to request an enrollment form, call BNY MELLON Shareowner Services s telephone response center at (866) 216-0306. From outside the United States, call +1-212-815-3700.

Annual Meeting

McKesson Corporation's Annual Meeting of Stockholders will be held at 8:30 a.m., PDT, on Wednesday, July 23, 2008, at the A. P. Giannini Auditorium, 555 California Street, San Francisco, California.

Exhibit 31.1

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John H. Hammergren, certify that:

1. I have reviewed this annual report on Form 10-K of McKesson Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2008

/s/ John H. Hammergren
John H. Hammergren
Chairman, President and Chief Executive Officer

Exhibit 31.2

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeffrey C. Campbell, certify that:

1. I have reviewed this annual report on Form 10-K of McKesson Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2008

/s/ Jeffrey C. Campbell
Jeffrey C. Campbell
Executive Vice President and Chief Financial Officer

Exhibit 32

**CERTIFICATION PURSUANT TO
18 U.S.C SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of McKesson Corporation (the "Company") on Form 10-K for the year ended March 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the dates indicated below, each hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of their knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John H. Hammergren
John H. Hammergren
Chairman, President and Chief Executive Officer
May 7, 2008

/s/ Jeffrey C. Campbell
Jeffrey C. Campbell
Executive Vice President and Chief Financial Officer
May 7, 2008

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002, and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to McKesson Corporation and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

TRIAL EXHIBIT 91

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2009

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 1-13252

McKESSON CORPORATION

A Delaware Corporation

I.R.S. Employer Identification Number

94-3207296

McKesson Plaza

One Post Street, San Francisco, CA 94104

Telephone (415) 983-8300

Securities registered pursuant to Section 12(b) of the Act:

(Title of Each Class)

(Name of Each Exchange on Which Registered)

Common Stock, \$0.01 par value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☒

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

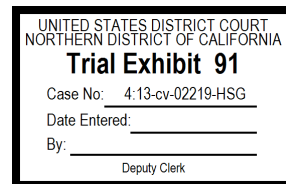
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, September 2008, was approximately \$14.5 billion.

Number of shares of common stock outstanding on April 30, 2009: 271,418,501.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2009 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.



McKESSON CORPORATION**TABLE OF CONTENTS**

<u>Item</u>	<u>Page</u>
PART I	
1. Business.....	3
1A. Risk Factors.....	10
1B. Unresolved Staff Comments	10
2. Properties.....	10
3. Legal Proceedings	10
4. Submission of Matters to a Vote of Security Holders	11
Executive Officers of the Registrant	11
PART II	
5. Market for the Registrant’s Common Equity, Related Stockholder Matters, Issuer Purchases of Equity Securities and Stock Price Performance Graph.....	12
6. Selected Financial Data	13
7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	14
7A. Quantitative and Qualitative Disclosures About Market Risk.....	14
8. Financial Statements and Supplementary Data	14
9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	14
9A. Controls and Procedures.....	14
9B. Other Information.....	14
PART III	
10. Directors, Executive Officers and Corporate Governance	15
11. Executive Compensation	15
12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.....	15
13. Certain Relationships and Related Transactions and Director Independence	17
14. Principal Accounting Fees and Services	17
PART IV	
15. Exhibits and Financial Statement Schedule.....	18
Signatures	19

McKESSON CORPORATION**PART I****Item 1. Business****General**

McKesson Corporation (“McKesson,” the “Company,” the “Registrant” or “we” and other similar pronouns), is a Fortune 15 corporation providing supply, information and care management products and services designed to reduce costs and improve quality across the healthcare industry.

The Company’s fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references in this document to a particular year shall mean the Company’s fiscal year.

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act,”) are available free of charge on our Web site (www.mckesson.com under the “Investors – SEC Filings” caption) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (“SEC” or the “Commission”). The content on any Web site referred to in this Annual Report on Form 10-K is not incorporated by reference into this report, unless expressly noted otherwise.

Business Segments

We operate in two segments. The McKesson Distribution Solutions segment distributes ethical and proprietary drugs, medical-surgical supplies and equipment, and health and beauty care products throughout North America. This segment also provides specialty pharmaceutical solutions for biotech and pharmaceutical manufacturers, sells pharmacy software and provides consulting, outsourcing and other services. This segment includes a 49% interest in Nadro, S.A. de C.V. (“Nadro”), one of the leading pharmaceutical distributors in Mexico and a 39% interest in Parata Systems, LLC (“Parata”), which sells automated pharmacy and supply management systems and services to retail and institutional outpatient pharmacies.

The McKesson Technology Solutions segment delivers enterprise-wide clinical, patient care, financial, supply chain, and strategic management software solutions, pharmacy automation for hospitals, as well as connectivity, outsourcing and other services. Our Payor group of businesses, which includes our InterQual®, clinical auditing and compliance and medical management software businesses and our care management programs, are also included in this segment. The segment’s customers include hospitals, physicians, homecare providers, retail pharmacies and payors from North America, the United Kingdom, other European countries and Asia Pacific.

Net revenues for our segments for the last three years were as follows:

<i>(Dollars in billions)</i>	2009		2008		2007	
Distribution Solutions	\$ 103.6	97%	\$ 98.7	97%	\$ 90.7	98%
Technology Solutions	3.0	3	3.0	3	2.3	2
Total	\$ 106.6	100%	\$ 101.7	100%	\$ 93.0	100%

Distribution Solutions

McKesson Distribution Solutions consists of the following businesses: U.S. Pharmaceutical Distribution, McKesson Canada, Medical-Surgical Distribution, McKesson Pharmacy Systems and Automation and McKesson Specialty Care Solutions. This segment also includes our 49% interest in Nadro and 39% interest in Parata.

McKESSON CORPORATION

U.S. Pharmaceutical Distribution: This business supplies pharmaceuticals and other healthcare-related products to customers in three primary customer segments: 1) retail national accounts (including national and regional chains, food/drug combinations, mail order pharmacies and mass merchandisers); 2) independent retail pharmacies; and 3) institutional healthcare providers (including hospitals, health systems, integrated delivery networks, clinics and long-term care providers).

Our U.S. pharmaceutical distribution business operates and serves thousands of customer locations through a network of 29 distribution centers, as well as a master redistribution center, a strategic redistribution center and two repackaging facilities, serving all 50 states and Puerto Rico. We invest in technology and other systems at all of our distribution centers to enhance safety, reliability and provide the best product availability for our customers. For example, in all of our distribution centers we use Acumax® Plus, a Smithsonian award-winning technology that integrates and tracks all internal inventory-related functions such as receiving, put-away and order fulfillment. Acumax Plus uses bar code technology, wrist-mounted computer hardware and radio frequency signals to provide customers with real-time product availability and industry-leading order quality and fulfillment in excess of 99.9% adjusted accuracy. In addition, we offer Mobile ManagerSM, which integrates portable handheld technology with Acumax Plus to give customers complete ordering and inventory control. We also offer McKesson *Connect* (formerly Supply Management OnlineSM), an Internet-based ordering system that provides item lookup and real-time inventory availability as well as ordering, purchasing, third-party reconciliation and account management functionality. Together, these features help ensure customers have the right products at the right time for their facilities and patients.

To maximize distribution efficiency and effectiveness, we follow the Six Sigma methodology — an analytical approach that emphasizes setting high-quality objectives, collecting data and analyzing results to a fine degree in order to improve processes, reduce costs and minimize errors. We continue to implement information systems to help achieve greater consistency and accuracy both internally and for our customers.

The major offerings of the McKesson U.S. Pharmaceutical Distribution business, by customer group can be categorized as retail national accounts, independent retail pharmacies and institutional healthcare providers.

Retail National Accounts — Business solutions that help national account customers increase revenues and profitability:

- Central Fill — Prescription refill service that enables pharmacies to more quickly refill prescriptions remotely, more accurately and at a lower cost, while reducing inventory levels and improving customer service.
- Redistribution Centers — Two facilities totaling 420 thousand square feet that offer access to inventory for single source warehouse purchasing, including pharmaceuticals and biologicals. These distribution centers also provide the foundation for a two-tiered distribution network that supports best-in-class direct store delivery.
- EnterpriseRxTM — McKesson EnterpriseRxTM is a fully integrated and centrally hosted pharmacy management solution (Application Service Provider model). Built utilizing the latest technology, EnterpriseRx centralizes data, reporting, pricing and drug updates, providing the operational control, visibility and support needed to reduce costs and streamline administrative tasks.
- RxPakSM — Bulk-to-bottle repackaging service that leverages our purchasing scale and supplier relationships to provide pharmaceuticals at reduced prices, help increase inventory turns and reduce working capital investment.
- Inventory Management — An integrated solution comprising forecasting software and automated replenishment technologies that reduce inventory carrying costs.

McKESSON CORPORATION

Independent Retail Pharmacies — Solutions for managed care contracting, branding and advertising, merchandising, purchasing, operational efficiency and automation that help independent pharmacists focus on patient care while improving profitability:

- **Health Mart®** — Health Mart® is a national network of more than 2,000 independently-owned pharmacies and is one of the industry's most comprehensive pharmacy franchise programs. Health Mart® provides franchisees with managed care that drives Pharmacy Benefit Manager recognition, branding that drives consumer recognition, in-store programs that drive manufacturer and payor recognition and community advocacy programs that drive industry recognition. Health Mart® helps franchisees grow their businesses by focusing on the three principles of successful retailing:
 - Attract new customers;
 - Maximize the value of current customers; and
 - Enhance business efficiency.
- **AccessHealth®** — Comprehensive managed care and reconciliation assistance services that help independent pharmacies save time, access competitive reimbursement rates and improve cash flow.
- **McKesson Reimbursement Advantage (“MRA”)** — MRA is one of the industry's most comprehensive reimbursement optimization packages, comprising financial services (automated claim resubmission), analytic services and customer care.
- **McKesson OneStop Generics®** — Generic pharmaceutical purchasing program that helps pharmacies maximize their cost savings with a broad selection of generic drugs, low pricing and one-stop shopping.
- **Sunmark®** — Complete line of more than 1,000 products that provide retail independent pharmacies with value-priced alternatives to national brands.
- **FrontEdge™** — Strategic planning, merchandising and price maintenance program that helps independent pharmacies maximize store profitability.
- **McKesson Home Health Care** — Comprehensive line of more than 1,800 home health care products, including durable medical equipment, diabetes supplies, self-care supplies and disposables from national brands and the Sunmark® line.

Institutional Healthcare Providers — Electronic ordering/purchasing and supply chain management systems that help improve efficiencies, save labor and improve asset utilization:

- **Fulfill-Rx™** — Ordering and inventory management system that integrates McKesson pharmaceutical distribution services with our automation solutions, thus empowering hospitals to optimize the often complicated and disjointed processes related to unit-based cabinet replenishment and inventory management.
- **Asset Management** — Award-winning inventory optimization and purchasing management program that helps institutional providers lower costs while ensuring product availability.
- **SKY Packaging** — Blister-format packaging containing the most widely prescribed dosages and strengths in generic oral solid-medications. SKY enables acute care, long-term care and institutional pharmacies to provide cost-effective, uniform packaging.
- **McKesson OneStop Generics®** — The McKesson OneStop Generics program enables acute care pharmacies to capture the full potential of purchasing generic pharmaceuticals. The Long-Term Care OneStop Generics program allows a long-term care pharmacy to capture savings on generic purchases.
- **McKesson 340B Manager and Easy340B** — Solutions that help providers manage, track, and report on the medication replenishment associated with the federal 340B Drug Pricing Program.
- **High Performance Pharmacy** — Framework that identifies and categorizes hospital pharmacy best practices to help improve clinical outcomes and financial results. The High Performance Pharmacy Assessment and Benchmarking tools enable hospital pharmacies to measure against comparable institutions and chart a step-by-step path to high performance.

McKESSON CORPORATION

McKesson Canada: McKesson Canada, a wholly-owned subsidiary, is one of the largest pharmaceutical distributors in Canada. McKesson Canada, through its network of 17 distribution centers, provides logistics and distribution to more than 800 manufacturers – delivering their products to retail pharmacies, hospitals, long-term care centers, clinics and institutions throughout Canada. Beyond pharmaceutical distribution, logistics and order fulfillment, McKesson Canada has automated over 2,500 retail pharmacies and is also active in hospital automation solutions, dispensing more than 100 million doses each year. In partnership with other McKesson businesses, McKesson Canada provides a full range of services to Canadian manufacturers and healthcare providers, contributing to the quality and safety of care for Canadian patients.

Medical–Surgical Distribution: Medical-Surgical Distribution provides medical-surgical supply distribution, equipment, logistics and other services to healthcare providers including physicians’ offices, surgery centers, extended care facilities, homecare and occupational health sites through a network of 29 distribution centers within the U.S. This business is a leading provider of supplies to the full range of alternate-site healthcare facilities, including physicians’ offices, clinics and surgery centers (primary care), long-term care, occupational health facilities and homecare sites (extended care). Through a variety of technology products and services geared towards the supply chain, our Medical-Surgical Distribution business is focused on helping its customers operate more efficiently while providing one of the industry’s most extensive product offerings, including our own private label line. This business also includes ZEE® Medical, one of the most extensive product offerings in the industry of first aid, safety and training solutions, providing services to industrial and commercial customers. This business offers an extensive line of products and services aimed at maximizing productivity and minimizing the liability and cost associated with workplace illnesses and injuries.

McKesson Pharmacy Systems and Automation: This business supplies integrated pharmacy management systems, automated dispensing systems and related services to retail, outpatient, central fill, specialty and mail order pharmacies. We also own a 39% interest in Parata which sells automated pharmacy and supply management systems and services to retail and institutional pharmacies.

McKesson Specialty Care Solutions: This business provides solutions for patients with complex diseases and advances specialty care by facilitating collaboration among healthcare providers, drug manufacturers and payors through our expertise in specialty drug reimbursement and patient access program development. The business also supports manufacturers in product life cycle management as well as physicians and patients in gaining cost effective access to needed therapies. McKesson Specialty Care Solutions facilitates direct-to-physician specialty distribution services ensuring specialty drugs are received in manufacturer recommended conditions. This business also offers our industry leading Lynx® integrated technologies which help organizations improve reimbursement services and business efficiencies as well as clinical and patient support tools for improving safety and therapy adherence.

Technology Solutions

Our Technology Solutions segment provides a comprehensive portfolio of software, automation, support and services to help healthcare organizations improve quality and patient safety, reduce the cost and variability of care and better manage their resources and revenue stream. This segment also includes our Payor group of businesses, which includes our InterQual®, clinical auditing and compliance software businesses and our disease and medical management programs. This segment markets its products and services to integrated delivery networks, hospitals, physician practices, home healthcare providers, retail pharmacies and payors. The segment sells its solutions and services internationally through subsidiaries and/or distribution agreements in Canada, the United Kingdom, Ireland, other European countries, Asia Pacific and Israel.

McKESSON CORPORATION

The product portfolio for the Technology Solutions segment is designed to address a wide array of healthcare clinical and business performance needs ranging from medication safety and information access to revenue cycle management, resource utilization and physician adoption of electronic health records (“EHR”). Analytics software enables organizations to measure progress as they automate care processes for optimal clinical outcomes, business and operating results and regulatory compliance. To ensure that organizations achieve the maximum value for their information technology investment, the Technology Solutions segment also offers a wide range of services to support the implementation and use of solutions as well as assist with business and clinical redesign, process re-engineering and staffing (both information technology and back-office).

Key solution areas are as follows:

Clinical management: Horizon Clinicals® is built with architecture to facilitate integration and enable modular system deployment. It includes a clinical data repository, clinical decision support, physician order entry, point-of-care documentation with bar-coded medication administration, enterprise laboratory, radiology, pharmacy, surgical management, an emergency department solution and an ambulatory EHR system. Horizon Clinicals® also includes solutions to facilitate physician access to patient information such as a Web-based physician portal and wireless devices that draw on information from the hospital’s information systems. In addition, the Horizon Clinicals® suite includes a comprehensive solution for homecare, including telehealth and hospice.

Enterprise imaging: In addition to document imaging to facilitate maintenance and access to complete medical records, the segment provides a suite of enterprise medical imaging and information management systems, including a picture archiving communications system and a comprehensive cardiovascular information system. The segment’s enterprise-wide approach to medical imaging enables organizations to take advantage of specialty-specific workstations while building an integrated image repository that manages all of the images and information captured throughout the care continuum.

Financial management: The segment’s revenue cycle solutions are designed to reduce days in accounts receivable, prevent insurance claim denials, reduce costs and improve productivity. Examples of solutions include online patient billing, contract management, electronic claims processing and coding compliance checking. The segment’s hospital information systems play a key role in managing the revenue cycle by automating the operation of individual departments and their respective functions within the inpatient environment.

Resource management: Resource management solutions consist of an integrated suite of applications that enhance an organization’s ability to plan and optimize the delivery of quality patient care. These solutions automate the management of the workforce, supply chain, surgical and anesthesia documentation and provide analytics for performance measurement. Linking resource requirements to care protocols, the resource management solutions enhance predictability, improve communication, reduce variability and lower overall costs associated with care delivery.

Automation: Automation solutions include technologies that help hospitals re-engineer and improve their medication use and supply management processes. Examples include centralized pharmacy automation for unit-dose medications, unit-based cabinet technologies for secure medication storage and rapid retrieval, point-of-use supply automation systems for inventory management and revenue capture and an automated medication administration system for ensuring accuracy at the point of care. Based on a foundation of bar-code scanning technology, these integrated solutions are designed to reduce errors and bring new levels of safety to patients.

Physician practice solutions: The segment provides a complete solution for physician practices of all sizes that includes software, revenue cycle outsourcing and connectivity services. Software solutions include practice management and EHR software for physicians of every size, specialty or geographic location. The segment’s physician practice offering also includes outsourced billing and collection services as well as services that connect physicians with their patients, hospitals, retail pharmacies and payors. Revenue cycle outsourcing enables physician groups to avoid the infrastructure investment and administrative costs of their own in-house billing office. Services include clinical data collection, data input, medical coding, billing, contract management, cash collections, accounts receivable management and extensive reporting of metrics related to the physician practice.

McKESSON CORPORATION

Connectivity: Through the segment's vendor-neutral RelayHealth® and its intelligent network, the company provides interactive solutions that streamline clinical, financial and administrative communication between patients, providers, payors, pharmacies and financial institutions. RelayHealth® helps to accelerate the delivery of high-quality care and improve financial performance through online consultation of physicians by patients, electronic prescribing by physicians, point-of-service resolution of pharmacy claims by payors, pre-visit financial clearance of patients by providers and post-visit settlement of provider bills by payors and patients. RelayHealth® securely processes more than 12 billion financial and clinical transactions annually.

In addition to the product offerings described above, the Technology Solutions segment offers a comprehensive range of services to help organizations derive greater value, enhance satisfaction and return on investment throughout the life of the solutions implemented. The range of services includes:

Technology Services: The segment has worked with numerous healthcare organizations to support the smooth operation of their information systems by providing the technical infrastructure designed to maximize application accessibility, availability, security and performance.

Outsourcing Services: The segment helps organizations focus their resources on healthcare while the segment manages their information technology or operations through managed services, including outsourcing. Service options include remote hosting, managing hospital data processing operations, as well as strategic information systems planning and management, revenue cycle processes, payroll processing, business office administration and major system conversions.

Professional Services: Professional services help customers achieve business results from their software or automation investment. The segment offers a wide array of quality service options, including consulting for business and/or clinical process improvement and re-design as well as implementation, project management, technical and education services relating to all products in the Technology Solutions segment.

Payor Group: The following suite of services and software products is marketed to payors, employers and government organizations to help manage the cost and quality of care:

- Disease management programs to improve the health status and health outcomes of patients with chronic conditions;
- Nurse triage services to provide health information and recommend appropriate levels of care;
- Clinical and analytical software to support utilization, case and disease management workflows;
- Business intelligence tools for measuring, reporting and improving clinical and financial performance;
- InterQual® Criteria for clinical decision support; and
- Claims performance solutions to facilitate accurate and efficient medical claim payments.

Acquisitions, Investments and Discontinued Operations

We have undertaken strategic initiatives in recent years designed to further focus on our core healthcare businesses and enhance our competitive position. We expect to continue to undertake such strategic initiatives in the future. These initiatives are detailed in Financial Notes 2 and 7, "Acquisitions and Investments" and "Discontinued Operations," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Competition

In every area of healthcare distribution operations, our Distribution Solutions segment faces strong competition, both in price and service, from national, regional and local full-line, short-line and specialty wholesalers, service merchandisers, self-warehousing chains, manufacturers engaged in direct distribution and large payor organizations. In addition, this segment faces competition from various other service providers and from pharmaceutical and other healthcare manufacturers (as well as other potential customers of the segment) which may from time to time decide to develop, for their own internal needs, supply management capabilities which would otherwise be provided by the segment. Price, quality of service, and in some cases, convenience to the customer are generally the principal competitive elements in this segment.

McKESSON CORPORATION

Our Technology Solutions segment experiences substantial competition from many firms, including other computer services firms, consulting firms, shared service vendors, certain hospitals and hospital groups, hardware vendors and Internet-based companies with technology applicable to the healthcare industry. Competition varies in size from small to large companies, in geographical coverage and in scope and breadth of products and services offered.

Intellectual Property

The principal trademarks and service marks of the Distribution Solutions segment include: AccessHealth®, Acumax®, Closed Loop DistributionSM, Comets®, ConsumerScriptSM, Pharmacy Solutions®, Econolink®, Empowering Healthcare®, EnterpriseRxTM, Expect More From MooreSM, FrontEdgeTM, Health Mart®, High Performance PharmacySM, LoyaltyScript®, Lynx®, Max ImpactSM, McKesson®, McKesson Advantage®, McKesson Empowering Healthcare®, McKesson Max Rewards®, McKesson OneStop Generics®, McKesson Priority Express®, McKesson Supply ManagerSM, MediNetTM, Medi-Pak®, Mobile ManagerSM, Moore Medical®, MoorebrandSM, NOA®, Northstar RXSM, Onmark®, Pharma360®, PharmacyRxTM, Pharmaserv®, PharmAssureSM, ProIntercept®, ProMed®, ProPBM®, RX PakSM, RX Savings Access®, ServiceFirst®, Staydry®, Sunmark®, Supply Management OnlineSM, TrialScript®, Valu-Rite®, XVIII B Medi Mart® and ZEE®.

The substantial majority of technical concepts and codes embodied in our Technology Solutions segment's computer programs and program documentation are protected as trade secrets. The principal trademarks and service marks for this segment are: AcuDose-Rx®, ANSOSTM, Ask-A-Nurse®, Care Fully ConnectedTM, CareEnhance®, Connect-RNTM, Connect-Rx®, CRMS®, DataStat®, ePremis®, Episode Profiler®, E-ScriptTM, Fulfill-RxTM, HealthQuest®, Horizon Admin-RxTM, Horizon Clinicals®, HorizonWP®, InterQual®, Lytec®, MedCarousel®, Medisoft®, One-Call®, One-Staff®, ORSOSTM, PACMEDTM, PakPlus-Rx®, Paragon®, Pathways 2000®, Patterns ProfilerTM, Per-Se®, Per-Se Technologies® (and logo), PerYourHealth.com®, Practice Partner®, Premis®, RelayHealth®, ROBOT-Rx®, SelfPace®, Series 2000TM, STAR 2000TM, SupplyScanTM, TRENDSTAR® and WebVisitTM.

We also own other registered and unregistered trademarks and service marks and similar rights used by our business segments. All of the principal trademarks and service marks are registered in the United States, or registrations have been applied for with respect to such marks, in addition to certain other jurisdictions. The United States federal registrations of these trademarks have terms of ten or twenty years, depending on date of registration, and are subject to unlimited renewals. We believe we have taken all necessary steps to preserve the registration and duration of our trademarks and service marks, although no assurance can be given that we will be able to successfully enforce or protect our rights thereunder in the event that they are subject to third-party infringement claims. We do not consider any particular patent, license, franchise or concession to be material to our business. We also hold copyrights in, and patents related to, many of our products.

Other Information about the Business

Customers: During 2009, sales to our ten largest customers accounted for approximately 52% of our total consolidated revenues. Sales to our two largest customers, CVS Caremark Corporation ("Caremark,") and Rite Aid Corporation ("Rite Aid") accounted for 14% and 12% of our total consolidated revenues. At March 31, 2009, accounts receivable from our ten largest customers were approximately 49% of total accounts receivable. Accounts receivable from Caremark and Rite Aid were approximately 14% and 10% of total accounts receivable. Substantially all of these revenues and accounts receivable are included in our Distribution Solutions segment.

Suppliers: We obtain pharmaceutical and other products from manufacturers, none of which accounted for more than approximately 9% of our purchases in 2009. The loss of a supplier could adversely affect our business if alternate sources of supply are unavailable. We believe that our relationships with our suppliers on the whole are good. The ten largest suppliers in 2009 accounted for approximately 46% of our purchases.

A significant portion of our distribution arrangements with the manufacturers provides us compensation based on a percentage of our purchases. However, we also have certain distribution arrangements with manufacturers that include an inflation-based compensation component whereby we benefit when the manufacturers increase their prices as we sell our inventory being held at the new higher prices. For these manufacturers, a reduction in the frequency and magnitude of price increases, as well as restrictions in the amount of inventory available to us, could adversely impact our gross profit margin.

McKESSON CORPORATION

Research and Development: Our development expenditures primarily consist of our investment in software development held for sale. We spent \$438 million, \$420 million and \$359 million for development activities in 2009, 2008 and 2007 and of these amounts, we capitalized 17%, 17% and 21%. Development expenditures are primarily incurred by our Technology Solutions segment. Our Technology Solutions segment's product development efforts apply computer technology and installation methodologies to specific information processing needs of hospitals and other customers. We believe a substantial and sustained commitment to such expenditures is important to the long-term success of this business. Additional information regarding our development activities is included in Financial Note 1, "Significant Accounting Policies," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Environmental Regulation: We sold our chemical distribution operations in 1987 and retained responsibility for certain environmental obligations. Agreements with the Environmental Protection Agency and certain states may require environmental assessments and cleanups at several closed sites. These matters are described further in Financial Note 18, "Other Commitments and Contingent Liabilities," to the consolidated financial statements appearing in this Annual Report on Form 10-K. Other than any expenditures that may be required in connection with those legal matters, we do not anticipate making substantial capital expenditures either for environmental issues, or to comply with environmental laws and regulations in the future. The amount of our capital expenditures for environmental compliance was not material in 2009 and is not expected to be material in the next year.

Employees: On March 31, 2009, we employed approximately 32,500 persons compared to 32,900 in 2008 and 31,800 in 2007.

Financial Information About Foreign and Domestic Operations: Information as to foreign and domestic operations is included in Financial Notes 1 and 22, "Significant Accounting Policies" and "Segments of Business," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Item 1A. Risk Factors

Information regarding our risk factors is included in the Financial Review under the captions "Factors Affecting Forward-Looking Statements" and "Additional Factors That May Affect Future Results," beginning on page 51 of this Annual Report on Form 10-K.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Because of the nature of our principal businesses, our plant, warehousing, office and other facilities are operated in widely dispersed locations, mostly throughout the U.S. and Canada. The warehouses are typically owned or leased on a long-term basis. We consider our operating properties to be in satisfactory condition and adequate to meet our needs for the next several years without making capital expenditures materially higher than historical levels. Information as to material lease commitments is included in Financial Note 16, "Lease Obligations," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Item 3. Legal Proceedings

Certain legal proceedings in which we are involved are discussed in Financial Note 18, "Other Commitments and Contingent Liabilities," to our consolidated financial statements appearing in this Annual Report on Form 10-K.

McKESSON CORPORATION**Item 4. Submission of Matters to a Vote of Security Holders**

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the three months ended March 31, 2009.

Executive Officers of the Registrant

The following table sets forth information regarding the executive officers of the Company, including their principal occupations during the past five years. The number of years of service with the Company includes service with predecessor companies.

There are no family relationships between any of the executive officers or directors of the Company. The executive officers are chosen annually to serve until the first meeting of the Board of Directors following the next annual meeting of stockholders and until their successors are elected and have qualified, or until death, resignation or removal, whichever is sooner.

<u>Name</u>	<u>Age</u>	<u>Position with Registrant and Business Experience</u>
John H. Hammergren	50	Chairman of the Board since July 2002; President and Chief Executive Officer since April 2001; and a director since July 1999. Service with the Company – 13 years.
Jeffrey C. Campbell.....	48	Executive Vice President and Chief Financial Officer since April 2004; Senior Vice President and Chief Financial Officer from December 2003 to April 2004. Service with the Company – 5 years.
Paul C. Julian.....	53	Executive Vice President, Group President since April 2004; Senior Vice President from August 1999 to April 2004; President of McKesson Distribution Solutions since March 2000. Service with the Company – 13 years.
Jorge L. Figueredo.....	48	Executive Vice President, Human Resources since May 2008; Senior Vice President, Human Resources, Dow Jones, Inc. from February 2007 to January 2008; President, International, Liz Claiborne Inc. from October 1984 to May 2006. Service with the Company – 1 year.
Marc E. Owen.....	49	Executive Vice President, Corporate Strategy and Business Development since April 2004; Senior Vice President, Corporate Strategy and Business Development from September 2001 to April 2004. Service with the Company – 8 years.
Laureen E. Seeger.....	47	Executive Vice President, General Counsel and Secretary since March 2006; Vice President and General Counsel of McKesson Provider Technologies from February 2000 to March 2006. Service with the Company – 9 years.
Randall N. Spratt	57	Executive Vice President, Chief Technology Officer and Chief Information Officer since April 2009; Executive Vice President, Chief Information Officer from July 2005 to April 2009; Senior Vice President, Chief Process Officer, McKesson Provider Technologies from April 2003 to July 2005; Senior Vice President, Imaging, Technology and Business Process Improvement from January 2000 to April 2003. Service with the Company – 23 years

McKESSON CORPORATION

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters, Issuer Purchases of Equity Securities and Stock Price Performance Graph

- (a) *Market Information:* The principal market on which the Company's common stock is traded is the New York Stock Exchange ("NYSE"). High and low prices for the common stock by quarter are included in Financial Note 23, "Quarterly Financial Information (Unaudited)," to the consolidated financial statements appearing in this Annual Report on Form 10-K.
- (b) *Holders:* The number of record holders of the Company's common stock at March 31, 2009 was approximately 9,200.
- (c) *Dividends:* Dividend information is included in Financial Note 23, "Quarterly Financial Information (Unaudited)," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

In April 2008, the Company's Board of Directors ("Board") approved a change in the Company's dividend policy by increasing the amount of the Company's quarterly dividend from six cents to twelve cents per share, applicable to ensuing quarterly dividend declarations until further action by the Board. The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon the Company's future earnings, financial condition, capital requirements and other factors.

- (d) *Securities Authorized for Issuance under Equity Compensation Plans:* Information relating to this item is provided under Part III, Item 12, to this Annual Report on Form 10-K.
- (e) *Share Repurchase Plans:* The following table provides information on the Company's share repurchases during the fourth quarter of 2009:

	Share Repurchases ⁽¹⁾			
	Total Number of Shares Purchased ⁽²⁾⁽³⁾	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
<i>(In millions, except price per share)</i>				
January 1, 2009 – January 31, 2009	-	\$ -	-	\$ 980
February 1, 2009 – February 28, 2009	1	44.66	1	944
March 1, 2009 – March 31, 2009	3	39.25	3	830
Total	4	40.41	4	830

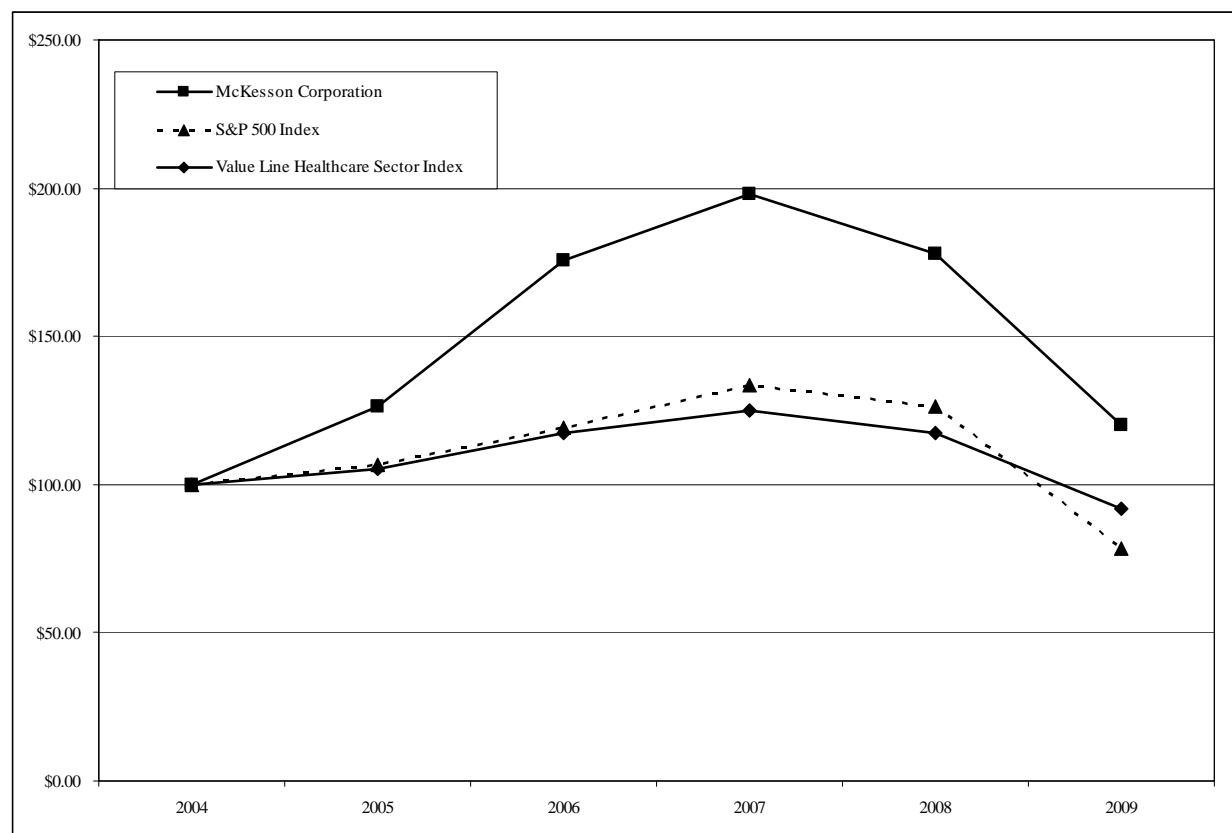
- (1) This table does not include shares tendered to satisfy the exercise price in connection with cashless exercises of employee stock options or shares tendered to satisfy tax withholding obligations in connection with employee equity awards.
- (2) All of the shares purchases were part of the publicly announced programs.
- (3) The number of shares purchased reflects rounding adjustments.

In April 2008, the Board approved a plan to repurchase \$1.0 billion of the Company's common stock of which \$830 million remained available as of March 31, 2009. Stock repurchases may be made from time to time in open market or private transactions.

In July 2008, the Board authorized the retirement of shares of the Company's common stock that may be repurchased from time to time pursuant to its stock repurchase program. During the second quarter of 2009, we repurchased 4 million shares for \$204 million and all of these shares were formally retired by the Company. The retired shares constitute authorized but unissued shares.

McKESSON CORPORATION

- (f) *Stock Price Performance Graph**: The following graph compares the cumulative total stockholder return on the Company's common stock for the periods indicated with the Standard & Poor's 500 Index and the Value Line Healthcare Sector Index (composed of 154 companies in the health care industry, including the Company).



	March 31,					
	2004	2005	2006	2007	2008	2009
McKesson Corporation	\$ 100.00	\$ 126.38	\$ 175.41	\$ 197.91	\$ 177.74	\$ 120.18
S&P 500 Index	\$ 100.00	\$ 106.69	\$ 119.21	\$ 133.31	\$ 126.54	\$ 78.34
Value Line Healthcare Sector Index	\$ 100.00	\$ 105.11	\$ 117.52	\$ 125.09	\$ 117.35	\$ 91.93

* Assumes \$100 invested in the Company's common stock and in each index on March 31, 2004 and that all dividends are reinvested.

Item 6. Selected Financial Data

Selected financial data is presented in the Five-Year Highlights section of this Annual Report on Form 10-K.

McKESSON CORPORATION

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis of the Company's results of operations and financial condition are presented in the Financial Review section of this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Information required by this item is included in the Financial Review section of this Annual Report on Form 10-K.

Item 8. Financial Statements and Supplementary Data

Financial Statements and Supplementary Data are included as separate sections of this Annual Report on Form 10-K. See Item 15.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our Chief Executive Officer and our Chief Financial Officer, with the participation of other members of the Company's management, have evaluated the effectiveness of the Company's "disclosure controls and procedures" (as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report, and have concluded that our disclosure controls and procedures are effective based on their evaluation of these controls and procedures as required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

Internal Control over Financial Reporting

Management's report on the Company's internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) and the related report of our independent registered public accounting firm are included on page 62 and page 63 of this Annual Report on Form 10-K, under the headings, "Management's Annual Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm" and are incorporated herein by reference.

Changes in Internal Controls

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Not applicable.

McKESSON CORPORATION

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information about our Directors is incorporated by reference from the discussion under Item 1 of our Proxy Statement for the 2009 Annual Meeting of Stockholders (the “Proxy Statement”) under the heading “Election of Directors.” Information about compliance with Section 16(a) of the Exchange Act is incorporated by reference from the discussion under the heading “Section 16(a) Beneficial Ownership Reporting Compliance” in our Proxy Statement. Information about our Audit Committee, including the members of the committee and our Audit Committee Financial Expert, is incorporated by reference from the discussion under the headings “Audit Committee Report” and “Audit Committee Financial Expert” in our Proxy Statement. The balance of the information required by this item is contained in the discussion entitled “Executive Officers of the Registrant” in Item 4 of Part I of this Annual Report on Form 10-K.

Pursuant to Section 303A.12 (a) of the NYSE Listed Company Manual, the Company’s Chief Executive Officer submitted to the NYSE a certification, dated August 18, 2008, stating that, as of such date, he was not aware of any violation by the Company of any NYSE corporate governance listing standards.

Information about the Code of Ethics governing our Chief Executive Officer, Chief Financial Officer, Controller and Financial Managers can be found on our Web site, www.mckesson.com, under the Investors – Corporate Governance tab. The Company’s Corporate Governance Guidelines and Charters for the Audit and Compensation Committees and the Committee on Directors and Corporate Governance can also be found on our Web site under the Investors – Corporate Governance tab.

Copies of these documents may be obtained from:

Corporate Secretary
McKesson Corporation
One Post Street, 35th Floor
San Francisco, CA 94104
(800) 826-9360

The Company intends to disclose required information regarding any amendment to or waiver under the Code of Ethics referred to above by posting such information on our Web site within four business days after any such amendment or waiver.

Item 11. Executive Compensation

Information with respect to this item is incorporated by reference from the discussion under the heading “Executive Compensation” in our Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information about security ownership of certain beneficial owners and management is incorporated by reference from the discussion under the heading “Principal Stockholders” in our Proxy Statement.

McKESSON CORPORATION

The following table sets forth information as of March 31, 2009 with respect to the plans under which the Company's common stock is authorized for issuance:

<i>Plan Category (In millions, except per share amounts)</i>	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights ⁽¹⁾	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders ⁽²⁾	14.8	\$ 43.74	15.9 ⁽³⁾
Equity compensation plans not approved by security holders ^{(4),(5)}	7.7	32.57	-

- (1) The weighted-average exercise price set forth in this column is calculated excluding outstanding restricted stock unit ("RSU") awards, since recipients are not required to pay an exercise price to receive the shares subject to these awards.
- (2) Represents option and RSU awards, outstanding under the following plans: (i) 1994 Stock Option and Restricted Stock Plan; (ii) 1997 Non-Employee Directors' Equity Compensation and Deferral Plan; and (iii) the 2005 Stock Plan.
- (3) Represents 4,379,566 shares which remained available for purchase under the 2000 Employee Stock Purchase Plan ("ESPP") and 11,505,221 shares available for grant under the 2005 Stock Plan as of March 31, 2009.
- (4) Represents options and RSU awards outstanding under the following plans: (i) 1999 Stock Option and Restricted Stock Plan; (ii) 1998 Canadian Stock Incentive Plan; and (iii) certain one time stock option plan awards. No further awards will be made under any of these plans.
- (5) As a result of acquisitions, the Company currently has two assumed option plans under which options and RSU awards are exercisable for 39,804 shares of the Company's common stock. No further awards will be made under any of the assumed plans and information regarding the assumed options is not included in the table above.

The following are descriptions of equity plans that have been approved by the Company's stockholders. The plans are administered by the Compensation Committee of the Board of Directors, except for the portion of the 2005 Stock Plan related to Non-Employee Directors, which is administered by the Committee on Directors and Corporate Governance.

2005 Stock Plan: The 2005 Stock Plan was adopted by the Board of Directors on May 25, 2005 and approved by the Company's stockholders on July 27, 2005. The 2005 Stock Plan permits the granting of up to 28 million shares in the form of stock options, restricted stock ("RS"), RSUs, performance-based restricted stock units ("PeRSUs") and other share-based awards. For any one share of common stock issued in connection with a RS, RSU, PeRSU or other share-based award, two shares shall be deducted from the shares available for future grants. Shares of common stock not issued or delivered as a result of the net exercise of a stock option, shares used to pay the withholding taxes related to a stock award or shares repurchased on the open market with proceeds from the exercise of options shall not be returned to the reserve of shares available for issuance under the 2005 Stock Plan.

Stock options are granted at no less than fair market value and those options granted under the 2005 Stock Plan generally have a contractual term of seven years. Prior to 2005, stock options typically had a contractual term of ten years. Options generally become exercisable in four equal annual installments beginning one year after the grant date or after four years from the date of grant. The vesting of RS or RSUs is determined by the Compensation Committee at the time of grant. RS and RSUs generally vest over four years. Vesting of PeRSUs ranges from one to three-year periods following the end of the performance period and may follow the graded or cliff method of vesting.

Non-employee directors may be granted an award on the date of each annual meeting of the stockholders for up to 5,000 RSUs, as determined by the Board. Such non-employee director award is fully vested on the date of the grant.

McKESSON CORPORATION

2000 Employee Stock Purchase Plan (the “ESPP”): The ESPP is intended to qualify as an “employee stock purchase plan” within the meaning of Section 423 of the Internal Revenue Code. In March 2002, the Board amended the ESPP to allow for participation in the plan by employees of certain of the Company’s international and certain other subsidiaries. As to those employees, the ESPP does not qualify under Section 423 of the Internal Revenue Code. Currently, 16 million shares have been approved by stockholders for issuance under the ESPP.

The ESPP is implemented through a continuous series of three-month purchase periods (“Purchase Periods”) during which contributions can be made toward the purchase of common stock under the plan.

Each eligible employee may elect to authorize regular payroll deductions during the next succeeding Purchase Period, the amount of which may not exceed 15% of a participant’s compensation. At the end of each Purchase Period, the funds withheld by each participant will be used to purchase shares of the Company’s common stock. The purchase price of each share of the Company’s common stock is based on 85% of the fair market value of each share on the last day of the applicable Purchase Period. In general, the maximum number of shares of common stock that may be purchased by a participant for each calendar year is determined by dividing \$25,000 by the fair market value of one share of common stock on the offering date.

The following are descriptions of equity plans that have not been submitted for approval by the Company’s stockholders:

On July 27, 2005, the Company’s stockholders approved the 2005 Stock Plan which had the effect of terminating the 1999 Stock Option and Restricted Stock Plan, the 1998 Canadian Stock Incentive Plan and certain 1999 one time stock option plan awards, which plans had not been submitted for approval by the Company’s stockholders, and the 1997 Non-Employee Directors’ Equity Compensation and Deferral Plan, which had previously been approved by the Company’s stockholders. Prior grants under these plans include stock options, RS and RSUs. Stock options under the terminated plans generally have a ten-year life and vest over four years. RS contains certain restrictions on transferability and may not be transferred until such restrictions lapse. Each of these plans has outstanding equity grants, which are subject to the terms and conditions of their respective plans, but no new grants will be made under these terminated plans.

Item 13. Certain Relationships and Related Transactions and Director Independence

Information with respect to certain transactions with management is incorporated by reference from the Proxy Statement under the heading “Certain Relationships and Related Transactions.” Additional information regarding certain related party balances and transactions is included in the Financial Review section of this Annual Report on Form 10-K and Financial Note 20, “Related Party Balances and Transactions,” to the consolidated financial statements.

Item 14. Principal Accounting Fees and Services

Information regarding principal accounting fees and services is set forth under the heading “Ratification of Appointment of Deloitte & Touche LLP as the Company’s Independent Registered Public Accounting Firm for Fiscal 2010” in our Proxy Statement and all such information is incorporated herein by reference.

McKESSON CORPORATION**PART IV****Item 15. Exhibits and Financial Statement Schedule**(a) *Financial Statements, Financial Statement Schedule and Exhibits*

	<u>Page</u>
Supplementary Consolidated Financial Statement Schedule— Valuation and Qualifying Accounts	20
<p>Financial statements and schedules not included have been omitted because of the absence of conditions under which they are required or because the required information, where material, is shown in the financial statements, financial notes or supplementary financial information.</p>	
Exhibits submitted with this Annual Report on Form 10-K as filed with the SEC and those incorporated by reference to other filings are listed on the Exhibit Index.....	21
Consolidated Financial Statements and Report of Independent Registered Public Accounting Firm. See “Index to Consolidated Financial Information”	25

McKESSON CORPORATION

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

McKESSON CORPORATION

Dated: May 5, 2009

/s/ Jeffrey C. Campbell
Jeffrey C. Campbell
 Executive Vice President and Chief Financial Officer

On behalf of the Registrant and pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the date indicated:

*

John H. Hammergren
 Chairman, President and Chief Executive Officer
 (Principal Executive Officer)

*

Jeffrey C. Campbell
 Executive Vice President and Chief Financial Officer
 (Principal Financial Officer)

*

Nigel A. Rees
 Vice President and Controller
 (Principal Accounting Officer)

*

Andy D. Bryant, Director

*

Wayne A. Budd, Director

*

Alton F. Irby III, Director

*

M. Christine Jacobs, Director

*

Marie L. Knowles, Director

*

David M. Lawrence M.D., Director

*

Edward A. Mueller, Director

*

James V. Napier, Director

*

Jane E. Shaw, Director

*

/s/ Laureen E. Seeger
Laureen E. Seeger
 *Attorney-in-Fact

Dated: May 5, 2009

McKESSON CORPORATION

SCHEDULE II

SUPPLEMENTARY CONSOLIDATED FINANCIAL STATEMENT SCHEDULE
VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended March 31, 2009, 2008 and 2007
(In millions)

Description	Balance at Beginning of Year	Additions		Deductions From Allowance Accounts ⁽¹⁾	Balance at End of Year ⁽²⁾
		Charged to Costs and Expenses	Charged to Other Accounts ⁽³⁾		
Year Ended March 31, 2009					
Allowances for doubtful accounts	\$ 163	\$ 27	\$ 3	\$ (41)	\$ 152
Other allowances	9	6	1	(4)	12
	<u>\$ 172</u>	<u>\$ 33</u>	<u>\$ 4</u>	<u>\$ (45)</u>	<u>\$ 164</u>
Year Ended March 31, 2008					
Allowances for doubtful accounts	\$ 139	\$ 41	\$ 17	\$ (34)	\$ 163 ⁽⁴⁾
Other allowances	11	-	-	(2)	9
	<u>\$ 150</u>	<u>\$ 41</u>	<u>\$ 17</u>	<u>\$ (36)</u>	<u>\$ 172</u>
Year Ended March 31, 2007					
Allowances for doubtful accounts	\$ 124	\$ 24	\$ 15	\$ (24)	\$ 139 ⁽⁴⁾
Other allowances	7	4	-	-	11
	<u>\$ 131</u>	<u>\$ 28</u>	<u>\$ 15</u>	<u>\$ (24)</u>	<u>\$ 150</u>

	2009	2008	2007
(1) Deductions:			
Written off	\$ 27	\$ 32	\$ 24
Operation sold	6	-	-
Credited to other accounts	12	2	-
Total	<u>\$ 45</u>	<u>\$ 34</u>	<u>\$ 24</u>
(2) Amounts shown as deductions from receivables	<u>\$ 164</u>	<u>\$ 172</u>	<u>\$ 150</u>

(3) Primarily represents additions relating to acquisitions.

(4) Includes a \$10 million allowance for non-current receivables.

McKESSON CORPORATION**EXHIBIT INDEX**

The agreements included as exhibits to this report are included to provide information regarding their terms and not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements may contain representations and warranties by each of the parties to the applicable agreement that were made solely for the benefit of the other parties to the applicable agreement, and;

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.

Exhibits identified under “Incorporated by Reference” in the table below are on file with the Commission and are incorporated by reference as exhibits hereto.

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation of the Company as filed with the Delaware Secretary of State on July 25, 2007.	10-Q	1-13252	3.1	October 31, 2007
3.2	Amended and Restated By-Laws of the Company, dated as of April 22, 2009.	8-K	1-13252	3.2	April 28, 2009
4.1	Indenture, dated as of March 11, 1997, between the Company, as Issuer, and The First National Bank of Chicago, as Trustee.	10-K	1-13252	4.4	June 19, 1997
4.2	Indenture, dated as of January 29, 2002, between the Company, as Issuer, and the Bank of New York, as Trustee.	10-K	1-13252	4.6	June 12, 2002
4.3	Indenture, dated as of March 5, 2007, by and between the Company, as Issuer, and The Bank of New York Trust Company, N.A., as Trustee.	8-K	1-13252	4.1	March 5, 2007
10.1*	McKesson Corporation 1994 Stock Option and Restricted Stock Plan as amended through July 31, 2001.	10-K	1-13252	10.4	June 12, 2002
10.2*	McKesson Corporation 1999 Stock Option and Restricted Stock Plan, as amended through May 26, 2004.	10-K	1-13252	10.2	May 7, 2008
10.3*	McKesson Corporation 1997 Non-Employee Directors' Equity Compensation and Deferral Plan, as amended through January 29, 2003.	10-K	1-13252	10.4	June 10, 2004
10.4*	McKesson Corporation Supplemental Profit Sharing Investment Plan, as amended and restated on January 29, 2003.	10-K	1-13252	10.6	June 6, 2003
10.5*	McKesson Corporation Supplemental Profit Sharing Investment Plan II, as amended and restated on October 24, 2008.	10-Q	1-13252	10.1	October 29, 2008

McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
10.6*	McKesson Corporation Deferred Compensation Administration Plan, amended and restated effective October 28, 2004.	10-K	1-13252	10.6	May 13, 2005
10.7*	McKesson Corporation Deferred Compensation Administration Plan II, as amended and restated effective October 28, 2004, including Amendment No. 1 thereto effective July 25, 2007.	10-K	1-13252	10.7	May 7, 2008
10.8*	McKesson Corporation Deferred Compensation Administration Plan III, as amended and restated on October 24, 2008.	10-Q	1-13252	10.2	October 29, 2008
10.9*	McKesson Corporation 1994 Option Gain Deferral Plan, as amended and restated as of October 28, 2004.	10-K	1-13252	10.8	May 13, 2005
10.10*	McKesson Corporation Executive Benefit Retirement Plan, as amended and restated on October 24, 2008.	10-Q	1-13252	10.3	October 29, 2008
10.11*	McKesson Corporation Executive Survivor Benefits Plan, as amended and restated as of October 28, 2004.	10-K	1-13252	10.11	May 13, 2005
10.12*†	McKesson Corporation Severance Policy for Executive Employees, as amended and restated on December 29, 2008.	-	-	-	-
10.13*†	McKesson Corporation Change in Control Policy for Selected Executive Employees, as amended and restated on April 21, 2009.	-	-	-	-
10.14*	McKesson Corporation 2005 Management Incentive Plan, as amended and restated on October 24, 2008 and effective as of January 1, 2009.	10-Q	1-13252	10.5	October 29, 2008
10.15*†	Form of Statement of Terms and Conditions Applicable to Awards Pursuant to the McKesson Corporation 2005 Management Incentive Plan, effective April 1, 2009.	-	-	-	-
10.16*	McKesson Corporation Long-Term Incentive Plan, as amended and restated on October 24, 2008 and effective as of January 1, 2009.	10-Q	1-13252	10.6	October 29, 2008
10.17*	McKesson Corporation Stock Purchase Plan, as amended through July 31, 2002.	10-K	1-13252	10.19	June 6, 2003
10.18*	McKesson Corporation 2005 Stock Plan, as amended and restated on July 23, 2008.	10-Q	1-13252	10.7	October 29, 2008
10.19*†	Forms of (i) Statement of Standard Terms and Conditions applicable to Options, Restricted Stock, Restricted Stock Units and Performance Shares, (ii) Stock Option Grant Notice and (iii) Restricted Stock Unit Agreement, under the McKesson Corporation 2005 Stock Plan, as amended and restated on July 23, 2008.	-	-	-	-

McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
10.20†††	Deed of Settlement and Amendment in Relation to Human Resources and Payroll Services Contract dated as of June 22, 2005 between the Secretary of State for Health for the United Kingdom and McKesson Information Solutions UK Limited.	10-Q	1-13252	10.1	August 1, 2005
10.21	Amended and Restated Receivables Purchase Agreement, dated as of June 11, 2004, among the Company, as servicer, CGSF Funding Corporation, as seller, the several conduit purchasers from time to time party to the Agreement, the several committed purchasers from time to time party to the Agreement, the several managing agents from time to time party to the Agreement, and Bank One, N.A. (Main Office Chicago), as collateral agent.	10-K	1-13252	10.20	May 13, 2005
10.22	Amended and Restated Credit Agreement, dated as of June 8, 2007 among the Company and McKesson Canada Corporation, collectively, the Borrowers, Bank of America, N.A., as Administrative Agent, Bank of America, N.A. (acting through its Canada branch), as Canadian Administrative Agent, JPMorgan Chase Bank and Wachovia Bank, National Association, as Co-Syndication Agents, Wachovia Bank, National Association, as L/C Issuer, The Bank of Nova Scotia and The Bank of Tokyo-Mitsubishi UFJ, LTD., Seattle branch, as Co-Documentation Agents, and The Other Lenders Party Hereto Banc of America Securities LLC, as sole lead arranger and sole book manager.	8-K	1-13252	10.1	June 14, 2007
10.23	Purchase Agreement, dated as of December 31, 2002, between McKesson Capital Corp. and General Electric Capital Corporation.	10-K	1-13252	10.41	June 6, 2003
10.24	Services Agreement, dated as of December 31, 2002, between McKesson Capital Corp. and General Electric Capital Corporation.	10-K	1-13252	10.42	June 6, 2003
10.25	Interim Credit Agreement, dated as of January 26, 2007, among the Company, Bank of America N.A., as Administrative Agent, Wachovia Bank, National Association, as Syndication Agent, the other Lenders party there to, and Banc of America Securities LLC and Wachovia Capital Markets, LLC, as Joint Lead Arrangers and Joint Book Managers.	8-K	1-13252	10.1	January 26, 2007
10.26*	Amended and Restated Employment Agreement, dated as of November 1, 2008, by and between the Company and its Chairman, President and Chief Executive Officer.	10-Q	1-13252	10.10	October 29, 2008

McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
10.27*	Amended and Restated Employment Agreement, dated as of November 1, 2008, by and between the Company and its Former Executive Vice President and President, McKesson Technology Solutions.	10-Q	1-13252	10.11	October 29, 2008
10.28*	Amended and Restated Employment Agreement, dated as of November 1, 2008, by and between the Company and its Executive Vice President and Group President.	10-Q	1-13252	10.12	October 29, 2008
12†	Computation of Ratio of Earnings to Fixed Charges.	-	-	-	-
21†	List of Subsidiaries of the Registrant.	-	-	-	-
23†	Consent of Independent Registered Public Accounting Firm, Deloitte & Touche LLP.	-	-	-	-
24†	Power of Attorney.	-	-	-	-
31.1†	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, and adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	-	-	-	-
31.2†	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934 as amended, and adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	-	-	-	-
32††	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	-	-	-	-

* Management contract or compensation plan or arrangement in which directors and/or executive officers are eligible to participate.

† Filed herewith.

†† Furnished herewith.

††† Confidential treatment has been granted for certain portions of this exhibit and such confidential portions have been filed with the Commission.

Registrant agrees to furnish to the Commission upon request a copy of each instrument defining the rights of security holders with respect to issues of long-term debt of the registrant, the authorized principal amount of which does not exceed 10% of the total assets of the registrant.

McKESSON CORPORATION

INDEX TO CONSOLIDATED FINANCIAL INFORMATION

	<u>Page</u>
Five-Year Highlights	26
Financial Review	27
Management's Annual Report on Internal Control Over Financial Reporting	62
Report of Independent Registered Public Accounting Firm	63
Consolidated Financial Statements:	
Consolidated Statements of Operations for the years ended March 31, 2009, 2008 and 2007	64
Consolidated Balance Sheets as of March 31, 2009 and 2008	65
Consolidated Statements of Stockholders' Equity for the years ended March 31, 2009, 2008 and 2007	66
Consolidated Statements of Cash Flows for the years ended March 31, 2009, 2008 and 2007	67
Financial Notes	68

McKESSON CORPORATION

FIVE-YEAR HIGHLIGHTS

	As of and for the Years Ended March 31,				
<i>(In millions, except per share amounts and ratios)</i>	2009	2008	2007	2006	2005
Operating Results					
Revenues	\$ 106,632	\$ 101,703	\$ 92,977	\$ 86,983	\$ 79,096
Percent change	4.8%	9.4%	6.9%	10.0%	16.3%
Gross profit	5,378	5,009	4,332	3,777	3,342
Income (loss) from continuing operations before income taxes	1,064	1,457	1,297	1,171	(266)
Income (loss) after income taxes					
Continuing operations	823	989	968	745	(173)
Discontinued operations	-	1	(55)	6	16
Net income (loss)	823	990	913	751	(157)
Financial Position					
Working capital	3,065	2,438	2,730	3,527	3,658
Days sales outstanding for: ⁽¹⁾					
Customer receivables	24	22	21	22	23
Inventories	31	33	32	29	34
Drafts and accounts payable	43	44	43	41	40
Total assets	25,267	24,603	23,943	20,961	18,775
Total debt, including capital lease obligations	2,512	1,797	1,958	991	1,211
Stockholders' equity	6,193	6,121	6,273	5,907	5,275
Property acquisitions	195	195	126	166	135
Acquisitions of businesses, net	358	610	1,938	589	76
Common Share Information					
Common shares outstanding at year-end	271	277	295	304	299
Shares on which earnings (loss) per common share were based					
Diluted	279	298	305	316	294
Basic	275	291	298	306	294
Diluted earnings (loss) per common share ⁽²⁾					
Continuing operations	\$ 2.95	\$ 3.32	\$ 3.17	\$ 2.36	\$ (0.59)
Discontinued operations	-	-	(0.18)	0.02	0.06
Total	2.95	3.32	2.99	2.38	(0.53)
Cash dividends declared	134	70	72	74	71
Cash dividends declared per common share	0.48	0.24	0.24	0.24	0.24
Book value per common share ⁽²⁾⁽³⁾	22.87	22.10	21.26	19.43	17.64
Market value per common share – year end	35.04	52.37	58.54	52.13	37.75
Supplemental Data					
Capital employed ⁽⁴⁾	8,705	7,918	8,231	6,898	6,486
Debt to capital ratio ⁽⁵⁾	28.9%	22.7%	23.8%	14.4%	18.7%
Net debt to net capital employed ⁽⁶⁾	6.1%	6.6%	0.1%	(24.1)%	(12.6)%
Average stockholders' equity ⁽⁷⁾	6,214	6,344	6,022	5,736	5,264
Return on stockholders' equity ⁽⁸⁾	13.2%	15.6%	15.2%	13.1%	(3.0)%

Footnotes to Five-Year Highlights:

- (1) Based on year-end balances and sales or cost of sales for the last 90 days of the year.
- (2) Certain computations may reflect rounding adjustments.
- (3) Represents stockholders' equity divided by year-end common shares outstanding.
- (4) Consists of total debt and stockholders' equity.
- (5) Ratio is computed as total debt divided by capital employed.
- (6) Ratio is computed as total debt, net of cash and cash equivalents ("net debt"), divided by net debt and stockholders' equity ("net capital employed").
- (7) Represents a five-quarter average of stockholders' equity.
- (8) Ratio is computed as net income (loss), divided by a five-quarter average of stockholders' equity.

McKESSON CORPORATION

FINANCIAL REVIEW

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

Management's discussion and analysis of financial condition and results of operations, referred to as the Financial Review, is intended to assist the reader in the understanding and assessment of significant changes and trends related to the results of operations and financial position of the Company together with its subsidiaries. This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying financial notes. The Company's fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references in this document to a particular year shall mean the Company's fiscal year.

We conduct our business through two operating segments: Distribution Solutions and Technology Solutions. See Financial Note 22, "Segments of Business," to the accompanying consolidated financial statements for a description of these segments.

RESULTS OF OPERATIONS

Overview:

(In millions, except per share data)	Years Ended March 31,		
	2009	2008	2007
Revenues	\$ 106,632	\$ 101,703	\$ 92,977
Litigation Charge (Credits), Net	493	(5)	(6)
Income from Continuing Operations Before Income Taxes	\$ 1,064	\$ 1,457	\$ 1,297
Income Tax Provision	(241)	(468)	(329)
Income from Continuing Operations	823	989	968
Discontinued Operations, Net	-	1	(55)
Net Income	\$ 823	\$ 990	\$ 913
Diluted Earnings Per Share			
Continuing Operations	\$ 2.95	\$ 3.32	\$ 3.17
Discontinued Operations	-	-	(0.18)
Total	\$ 2.95	\$ 3.32	\$ 2.99
Weighted Average Diluted Shares	279	298	305

Revenues increased 5% to \$106.6 billion and 9% to \$101.7 billion in 2009 and 2008. The increase in revenues primarily reflects market growth rates in our Distribution Solutions segment, which accounted for 97% of our consolidated revenues. Revenues for 2009 also benefited from our acquisitions of Oncology Therapeutics Network ("OTN") in October 2007 and McQueary Brothers Drug Company ("McQueary Brothers") in May 2008. Revenues for 2008 also benefited from our acquisitions of OTN and Per-Se Technologies, Inc. ("Per-Se") in January 2007.

Gross profit increased 7% to \$5.4 billion and 16% to \$5.0 billion in 2009 and 2008. As a percentage of revenues, gross profit increased 11 basis points ("bp") to 5.04% and 27 bp to 4.93% in 2009 and 2008. The increase in our 2009 gross profit margin was primarily due to an improvement in our Distribution Solutions segment margin, partially offset by a decline in our Technology Solutions segment margin. Gross profit margin increased in 2008 primarily reflecting a greater proportion of higher margin Technology Solutions products and an improvement in our Distribution Solutions segment margin.

Operating expenses were \$4.2 billion, \$3.5 billion and \$3.1 billion in 2009, 2008 and 2007. Operating expenses increased primarily due to additional expenses incurred to support our sales growth, expenses associated with our business acquisitions and higher employee compensation expenses. In addition, operating expenses for 2009 include a pre-tax charge of \$493 million for the Average Wholesale Price ("AWP") Litigation as further discussed under the caption "Operating Expenses" in this Financial Review.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

In 2009, other income, net includes a pre-tax impairment charge of \$63 million (\$60 million after-tax) on two equity-held investments and a pre-tax gain of \$24 million (\$14 million after-tax) from the sale of an equity-held investment. Excluding these items, other income, net decreased over the last two years primarily due to a decrease in interest income due to lower average cash and cash equivalents balances and interest rates.

Interest expense increased slightly in 2009 and 43% to \$142 million in 2008. Interest expense for 2009 reflects the repayment of \$150 million of long-term debt during the fourth quarter of 2008 and the issuance of \$700 million of long-term debt during the fourth quarter of 2009. Interest expense in 2008 reflects additional expense associated with the issuance of \$1.0 billion of long-term debt in the fourth quarter of 2007 as part of our \$1.8 billion acquisition of Per-Se.

Income from continuing operations before income taxes was \$1.1 billion, \$1.5 billion and \$1.3 billion in 2009, 2008 and 2007 reflecting the above noted factors.

Our reported income tax rates were 22.7%, 32.1% and 25.4% in 2009, 2008 and 2007. Fluctuations in our reported income tax rates are primarily due to changes in income within states and foreign countries that have lower tax rates as well as other discrete tax events that occurred during the year. In 2009, income tax expense included \$111 million of net income tax benefits for discrete items, which primarily consists of the recognition of previously unrecognized tax benefits and related accrued interest. The recognition of these discrete items is primarily due to the lapsing of the statutes of limitations. In 2007, we recorded an \$83 million credit to our income tax provision relating to the reversal of income tax reserves related to uncertain tax matters surrounding our Consolidated Securities Litigation Action costs. These tax reserves were initially established in 2005 and were favorably resolved in 2007.

In 2007, our results from discontinued operations were an after-tax loss of \$55 million or \$0.18 per diluted share which included the divestiture of our Distribution Solutions segment's Acute Care medical-surgical supply business. This business was sold for net cash proceeds of \$160 million and resulted in an after-tax loss of \$66 million, which included a \$79 million non-tax deductible write-off of goodwill.

Net income was \$823 million, \$990 million and \$913 million in 2009, 2008 and 2007 and diluted earnings per share was \$2.95, \$3.32 and \$2.99.

Revenues:

<i>(In millions)</i>	Years Ended March 31,		
	2009	2008	2007
Distribution Solutions			
U.S. pharmaceutical direct distribution & services	\$ 66,876	\$ 60,436	\$ 54,127
U.S. pharmaceutical sales to customers' warehouses	25,809	27,668	27,555
Subtotal	92,685	88,104	81,682
Canada pharmaceutical distribution & services	8,225	8,106	6,692
Medical-Surgical distribution & services	2,658	2,509	2,364
Total Distribution Solutions	103,568	98,719	90,738
Technology Solutions			
Services	2,337	2,240	1,537
Software and software systems	572	591	536
Hardware	155	153	166
Total Technology Solutions	3,064	2,984	2,239
Total Revenues	\$ 106,632	\$ 101,703	\$ 92,977

Revenues increased 5% to \$106.6 billion in 2009 and 9% to \$101.7 billion in 2008. The growth in revenues was primarily driven by our Distribution Solutions segment, which accounted for 97% of revenues.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

U.S. pharmaceutical direct distribution and services revenues increased in 2009 compared with 2008 primarily reflecting market growth rates (which include growing drug utilization and price increases, offset in part by the increased use of lower priced generics), our acquisitions of OTN in October 2007 and McQueary Brothers in May 2008, expanded business with existing customers and a shift of revenues from sales to customers' warehouses to direct store delivery. U.S. pharmaceutical direct distribution and services revenues increased in 2008 compared with 2007 primarily due to market growth rates, new and expanded business and to a lesser extent, due to our acquisition of OTN. OTN is a U.S. distributor of specialty pharmaceuticals and McQueary Brothers is a regional distributor of pharmaceutical, health and beauty products to independent and regional chain pharmacies in the Midwestern U.S.

U.S. pharmaceutical sales to customers' warehouses decreased in 2009 compared with 2008 primarily reflecting a customer's loss of business, the loss of a large customer and reduced revenues associated with the consolidation of certain customers. Additionally, these revenues were also impacted by a shift to direct store delivery. These decreases were partially offset by expanded business with existing customers. U.S. pharmaceutical sales to customers' warehouses increased in 2008 compared with 2007 primarily as a result of new and expanded agreements with customers, which were partially offset by a customer's loss of business and reduced revenues associated with the consolidation of certain customers.

Sales to retail customers' warehouses represent large volume sales of pharmaceuticals primarily to a limited number of large self-warehousing retail chain customers whereby we order bulk product from the manufacturer, receive and process the product through our central distribution facility and subsequently deliver the bulk product (generally in the same form as received from the manufacturer) directly to our customers' warehouses. This distribution method is typically not marketed or sold by the Company as a stand alone service; rather, it is offered as an additional distribution method for our large retail chain customers that have an internal self-warehousing distribution network. Sales to customers' warehouses provide a benefit to these customers because they can utilize the Company as one source for both their direct to-store business and their warehouse business. We generally have significantly lower gross profit margins on sales to customers' warehouses as we pass much of the efficiency of this low cost-to-serve model on to the customer. These sales do, however, contribute to our gross profit dollars.

The customer mix of our U.S. pharmaceutical distribution revenues was as follows:

	2009	2008	2007
Direct Sales			
Independents	13%	13%	13%
Institutions	32	30	29
Retail Chains	26	24	23
Subtotal	71	67	65
Sales to retail customers' warehouses	29	33	35
Total	100%	100%	100%

From 2007 to 2009, the percentage of total direct and warehouse revenue attributed to the Company's retail chain customers declined compared to our other customer groups. This decline resulted in a positive impact on the Company's gross profit margin. As previously described, a limited number of our large retail chain customers purchase products through both the Company's direct and warehouse distribution methods, the latter of which generally has a significantly lower gross profit margin due to the low cost-to-serve model. When evaluating and pricing customer contracts, we do so based on our assessment of total customer profitability. As a result, we do not evaluate the Company's performance or allocate resources based on sales to customers' warehouses or gross profit associated with such sales.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Canadian pharmaceutical distribution and services revenues for 2009 increased slightly primarily reflecting new and expanded business and market growth rates, which were almost fully offset by unfavorable foreign exchange rates and the loss of a customer. Revenues for 2008 increased primarily reflecting market growth rates, favorable foreign exchange rates and new and expanded business, partially offset by six fewer days of sales compared to 2007. Canadian revenues in 2009 were negatively impacted by 9% unfavorable foreign exchange rates and in 2008 and 2007, benefited from 12% and 5% favorable foreign exchange rates.

Medical-Surgical distribution and services revenues increased over the last two years primarily reflecting market growth rates and acquisitions. In addition, revenues in 2008 were impacted by the discontinuance of the distribution of a product line and by one less week of sales compared to 2007. Revenues associated with this product line are now recorded by our U.S. pharmaceutical distribution business.

Technology Solutions revenues increased in 2009 primarily due to increased services revenues reflecting the segment's expanded customer base and outsourcing revenues. These increases were partially offset by unfavorable foreign exchange rates and a decrease in software revenues, particularly in the hospital and physician office customer segments. Technology Solutions' revenues increased in 2008 primarily reflecting the acquisition of Per-Se, a leading provider of financial and administrative healthcare solutions for hospitals, physicians and retail pharmacies, increased services revenues, the segment's expanded customer base and clinical software implementations.

Gross Profit:

<i>(Dollars in millions)</i>	Years Ended March 31,		
	2009	2008	2007
Gross Profit			
Distribution Solutions	\$ 3,955	\$ 3,586	\$ 3,252
Technology Solutions	1,423	1,423	1,080
Total	<u>\$ 5,378</u>	<u>\$ 5,009</u>	<u>\$ 4,332</u>
Gross Profit Margin			
Distribution Solutions	3.82%	3.63%	3.58%
Technology Solutions	46.44	47.69	48.24
Total	<u>5.04</u>	<u>4.93</u>	<u>4.66</u>

Gross profit increased 7% to \$5.4 billion in 2009 and 16% to \$5.0 billion in 2008. As a percentage of revenues, gross profit increased 11 bp in 2009 and 27 bp in 2008. Gross profit margin increased in 2009 primarily due to margin improvements in our Distribution Solutions segment, partially offset by a decline in our Technology Solutions segment reflecting a change in product mix and the recognition of \$21 million of disease management deferred revenues in 2008 for which associated expenses were previously recognized as incurred. Gross profit margin increased in 2008 primarily reflecting a greater proportion of higher margin Technology Solutions products, the recognition of \$21 million of disease management deferred revenues and an improvement in our Distribution Solutions segment's margin.

In 2009, our Distribution Solutions segment's gross profit margin increased compared to 2008. Gross profit margin was impacted by the benefit of increased sales of generic drugs with higher margins, higher buy side margins and an increase associated with a lower proportion of revenues within the segment attributed to sales to customers' warehouses, which generally have lower gross profit margins relative to other revenues within the segment. These increases were partially offset by a modest decline in sell margin during the latter part of the year and last-in, first-out ("LIFO") net inventory credits (\$8 million LIFO net expense in 2009 compared with a \$14 million LIFO net credit in 2008).

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Our Distribution Solutions segment uses the LIFO method of accounting for the majority of its inventories, which results in cost of sales that more closely reflects replacement cost than other accounting methods, thereby mitigating the effects of inflation and deflation on operating profit. The practice in the Distribution Solutions' distribution businesses is to pass on to customers published price changes from suppliers. Manufacturers generally provide us with price protection, which limits price-related inventory losses. Price declines on many generic pharmaceutical products in this segment over the last few years have moderated the effects of inflation in other product categories, which resulted in minimal overall price changes in those years. Additional information regarding our LIFO accounting is included under the caption "Critical Accounting Policies and Estimates" included in this Financial Review.

For each of the last three years, we estimate that the Company's total gross profit margin on sales to customers' warehouses represented about 5% of the segment's total gross profit dollars. As previously discussed, from 2007 to 2009, the percentage of total direct and warehouse revenue attributed to our retail chain customers declined compared to our other customer groups. This decline resulted in a positive impact on the Company's gross profit margin.

In 2008, our Distribution Solutions segment's gross profit margin increased slightly compared to 2007. Gross profit margin was impacted by higher buy side margins, the benefit of increased sales of generic drugs with higher margins, a decline in impairment charges associated with the write-down of certain abandoned assets within our Pharmacy Systems and Automation group and an increase associated with a lower proportion of revenues within the segment attributed to sales to customers' warehouses. These increases were partially offset by a decline in sell margin and LIFO inventory credits (\$14 million in 2008 compared with \$64 million in 2007).

In 2007, we contributed \$36 million in cash and \$45 million in net assets primarily from our Pharmacy Systems and Automation business to Parata Systems, LLC ("Parata,") in exchange for a significant minority interest in Parata. Parata is a manufacturer of pharmacy robotic equipment. In connection with the investment, we abandoned certain assets which resulted in a \$15 million charge to cost of sales and we incurred \$6 million of other expenses related to the transaction which were recorded within operating expenses. We did not recognize any additional gains or losses as a result of this transaction as we believed the fair value of our investment in Parata approximated the carrying value of consideration contributed to Parata.

In 2009, our Technology Solutions segment's gross profit margin decreased compared to the prior year primarily reflecting a change in product mix and the recognition in 2008 of \$21 million of disease management deferred revenues for which associated expenses were previously recognized as incurred. In 2008, Technology Solutions segment's gross profit margin decreased primarily reflecting a change in product mix which included a higher proportion of lower margin Per-Se services revenues. Partially offsetting this decrease was the recognition of \$21 million of disease management deferred revenues for which associated expenses were previously recognized as incurred.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Operating Expenses:

<i>(Dollars in millions)</i>	Years Ended March 31,		
	2009	2008	2007
Operating Expenses			
Distribution Solutions ⁽¹⁾	\$ 2,777	\$ 2,138	\$ 1,896
Technology Solutions	1,096	1,115	884
Corporate	309	283	294
Subtotal	4,182	3,536	3,074
Securities Litigation credits, net	-	(5)	(6)
Total	\$ 4,182	\$ 3,531	\$ 3,068
Operating Expenses as a Percentage of Revenues			
Distribution Solutions	2.68%	2.17%	2.09%
Technology Solutions	35.77	37.37	39.48
Total	3.92	3.47	3.30

(1) Operating expenses for 2009 include the \$493 million AWP Litigation charge.

Operating expenses increased 18% to \$4.2 billion in 2009 and 15% to \$3.5 billion in 2008. Operating expenses for 2009 include a pre-tax charge of \$493 million for the AWP Litigation. Excluding this charge, operating expenses increased primarily due to additional expenses incurred to support our sales growth, expenses associated with our business acquisitions and higher employee compensation expenses.

In 2009, we recorded a \$493 million charge for the AWP Litigation. As discussed in Financial Note 18, "Other Commitments and Contingent Liabilities," to the accompanying consolidated financial statements, we reached an agreement to settle all private party claims relating to First DataBank, Inc.'s published drug reimbursement benchmarks for \$350 million. The settlement terms, which are subject to final court approval, include an express denial of liability of any kind. We also recorded a reserve for pending and expected AWP-related claims by public payors, which is currently estimated to be \$143 million.

The combination of the AWP settlement for all private party claims and the decision by us to establish an estimated reserve for the pending and expected AWP-related claims by public payors resulted in a pre-tax, non-cash charge of \$493 million (\$311 million after-tax). We do not currently expect to have difficulties funding the settlement payments associated with the claims by private parties and any settlement or other resolution of the claims by public payors.

In 2009, 2008 and 2007, we recorded share-based compensation expense of \$99 million, \$91 million and \$60 million. At the beginning of our fiscal 2007, we adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment," which requires the recognition of expense resulting from transactions in which we acquire goods and services by issuing our shares, share options or other equity instruments. Due to the accelerated vesting of share-based awards prior to 2007, share-based compensation expense has increased over the past two years as share-based compensation is granted and amortized over the requisite service period. The rate of increase from 2009 and 2008 was mitigated by a decrease in our stock price and a change in terms of the grants. Share-based compensation charges are affected by a number of variables as further described under the caption "Critical Accounting Policies and Estimates" included in this financial review. As a result, actual future share-based compensation expense may differ from historical levels of expense. Additional information regarding our share based payments is also included in Financial Note 3, "Share-Based Payment," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Over the last three years, we recorded the following reduction in workforce and restructuring charges:

<i>(In millions)</i>	Years Ended March 31,		
	2009	2008	2007
Reduction in workforce charges ⁽¹⁾			
Distribution Solutions	\$ 7	\$ -	\$ -
Technology Solutions	25	8	-
Total	32	8	-
Restructuring charges (credits)			
Distribution Solutions ⁽²⁾	4	8	2
Technology Solutions ^{(3) (4)}	(2)	9	13
Corporate	(1)	2	-
Total	1	19	15
Total reduction in workforce and restructuring charges	\$ 33	\$ 27	\$ 15
Cost of sales ⁽⁵⁾	\$ 5	\$ 7	\$ -
Operating expenses	28	20	15
Total reduction in workforce and restructuring charges	\$ 33	\$ 27	\$ 15

- (1) Although reductions in workforce actions do not constitute a restructuring plan (as defined under U.S. generally accepted accounting principles (“GAAP,”)) they do represent independent actions taken from time to time, as appropriate.
- (2) In 2008, we incurred \$4 million of severance costs associated with the closure of two facilities and \$1 million and \$3 million of severance and asset impairments associated with the integration of OTN.
- (3) In 2008, we incurred \$5 million of severance and exit-related costs and a \$4 million asset impairment charge for the write-off of capitalized software costs associated with the termination of a software project.
- (4) Expenses for 2007 primarily consisted of \$8 million for employee severance costs associated with the reallocation of product development and marketing resources and the realignment of an international business within our Technology Solutions segment.
- (5) Amounts recorded to cost of sales pertain solely to our Technology Solutions segment.

Up to 2009, we have provided contributions for our profit sharing investment plan (“PSIP”) for U.S. employees primarily through a leveraged employee stock ownership plan (“ESOP”). In 2008 and 2007, we granted 1 million shares per year to plan participants. ESOP expense and other contribution expense, including interest expense on ESOP debt, was \$53 million, \$13 million and \$13 million in 2009, 2008 and 2007. ESOP expense for 2008 and 2007 was significantly lower than 2009 due to the utilization of lower cost basis shares in the ESOP to fund the Company’s matching contributions. At March 31, 2009, almost all of the 24 million common shares in the ESOP had been allocated to plan participants. As a result, we will need to fund most of our future PSIP contributions with cash or treasury shares.

As previously reported on the PSIP’s Annual Report on Form 11-K for the year ended March 31, 2008, the PSIP is a member of the settlement class in the Consolidated Securities Litigation Action (refer to Financial Note 18, “Other Commitments and Contingent Liabilities,” to the consolidated financial statements appearing in this Annual Report on Form 10-K). On April 27, 2009, the court issued an order approving the distribution of the settlement funds. At this time, we do not know the date on which the distribution of settlement funds to the PSIP will occur.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

On a segment basis, Distribution Solutions' operating expenses increased over the past two years primarily due to the \$493 million AWP Litigation charge in 2009, business acquisitions (including OTN and McQueary Brothers) and additional costs incurred to support our sales volume growth. Operating expenses as a percentage of revenues increased primarily due to the AWP Litigation charge as well as additional costs incurred to support our sales volume growth. Share-based compensation expense for this segment was \$26 million for 2009 and 2008 and \$17 million for 2007.

Technology Solutions segment's operating expenses decreased in 2009 and increased in 2008. Operating expenses for 2009 benefited from cost containment efforts and a decrease in bad debt expense, partially offset by an increase in net research and development expenses and additional costs for business acquisitions. Operating expenses increased in 2008 primarily reflecting higher employee compensation, an increase in net research and development expenses, additional costs for business acquisitions and higher bad debt expense. Operating expenses as a percentage of revenues for this segment have decreased over the last two years primarily reflecting the segment's cost containment efforts and a more favorable business mix. Share-based compensation expense for this segment was \$40 million, \$35 million and \$19 million for 2009, 2008 and 2007.

Corporate expenses increased in 2009 compared with 2008 primarily reflecting an increase in accounts receivable sales facility fees, compensation expense and additional costs incurred to support various initiatives. Corporate expenses decreased in 2008 compared with 2007 primarily reflecting a decrease in legal expenses associated with our Securities Litigation, a decrease in charitable contributions and a decrease in other long-term compensation. Share-based compensation expense for Corporate was \$33 million, \$30 million and \$24 million for 2009, 2008 and 2007.

Other Income, net:

<i>(In millions)</i>	Years Ended March 31,		
	2009	2008	2007
By Segment			
Distribution Solutions	\$ (20)	\$ 35	\$ 39
Technology Solutions	7	11	10
Corporate	25	75	83
Total	\$ 12	\$ 121	\$ 132

In 2009, other income, net includes a pre-tax impairment charge of \$63 million (\$60 million after-tax) on two equity-held investments (as further described below) and a pre-tax gain of \$24 million (\$14 million after-tax) from the sale of our 42% equity interest in Verispan, L.L.C. ("Verispan,") a data analytics company. The impairment charge and the gain on sale of our investment were both recorded within our Distribution Solutions segment. Excluding these items, other income, net decreased over the last two years primarily due to a decrease in interest income due to lower cash balances and interest rates. Interest income, which is primarily recorded in Corporate expenses, was \$31 million, \$89 million and \$103 million in 2009, 2008 and 2007.

We evaluate our investments for impairment when events or changes in circumstances indicate that the carrying values of such investment may have experienced an other than temporary decline in value. During the fourth quarter of 2009, we determined that the fair value of our interest in Parata was lower than its carrying value and that such impairment was other than temporary. Fair value was determined using a discounted cash flow analysis based on estimated future results and market capitalization rates. We determined the impairment was other than temporary based on our assessment of all relevant factors including a deterioration in the investee's financial condition and weak market conditions. As a result, we recorded a pre-tax impairment of \$58 million (\$55 million after-tax) on this investment which is recorded within other income, net in the consolidated statements of operations. Our investment in Parata is accounted for under the equity method of accounting within our Distribution Solutions segment.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

In 2009, we also recorded a pre-tax impairment of \$5 million (\$5 million after-tax) on another equity-held investment within our Distribution Solutions segment.

Segment Operating Profit and Corporate Expenses:

<i>(Dollars in millions)</i>	Years Ended March 31,		
	2009	2008	2007
Segment Operating Profit			
Distribution Solutions ⁽¹⁾	\$ 1,158	\$ 1,483	\$ 1,395
Technology Solutions	334	319	206
Subtotal	1,492	1,802	1,601
Corporate Expenses, net	(284)	(208)	(211)
Securities Litigation credits, net	-	5	6
Interest Expense	(144)	(142)	(99)
Income from Continuing Operations Before Income Taxes	\$ 1,064	\$ 1,457	\$ 1,297
Segment Operating Profit Margin			
Distribution Solutions	1.12%	1.50%	1.54%
Technology Solutions	10.90	10.69	9.20

- (1) Operating profit for 2009 for our Distribution Solutions segment includes the \$493 million pre-tax AWP Litigation charge, \$63 million of pre-tax charges to write-down two equity-held investments and a \$24 million pre-tax gain on the sale of our equity investment in Verispan.

Segment operating profit includes gross profit, net of operating expenses, and other income for our two operating segments.

In 2009, operating profit margin in our Distribution Solutions segment decreased compared with 2008 primarily reflecting an increase in operating expenses as a percentage of revenues and a decrease in other income, partially offset by a higher gross profit margin. Operating profit in 2009 included the \$493 million AWP Litigation charge, \$63 million of pre-tax charges to write-down two equity-held investments and a \$24 million pre-tax gain on the sale of the segment's 42% equity investment in Verispan. In 2008, operating profit margin in our Distribution Solutions segment decreased slightly compared with 2007 primarily reflecting higher operating expenses as a percentage of revenues, partially offset by an improved gross profit margin.

Operating profit margin in our Technology Solutions segment increased over the last two years primarily due to a decrease in operating expenses as a percentage of revenues, partially offset by a decrease in gross profit margin. Operating profit margin for this segment has benefited from cost containment efforts.

Corporate expenses, net of other income, increased in 2009 compared with 2008 primarily due to a decrease in interest income and an increase in operating expenses. Corporate expenses, net of other income, decreased in 2008 compared with 2007 primarily due to a decrease in operating expenses, partially offset by a decrease in interest income.

Securities Litigation Credits, Net: In 2008 and 2007, we recorded net credits of \$5 million and \$6 million relating to various settlements for our Securities Litigation. Recent developments pertaining to our Securities Litigation are described in Financial Note 18, "Other Commitments and Contingent Liabilities," to the accompanying consolidated financial statements.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Interest Expense: Interest expense increased slightly in 2009 and 43% to \$142 million in 2008. Interest expense for 2009 reflects the repayment of \$150 million of long-term debt during the fourth quarter of 2008 and the issuance of \$700 million of long-term debt during the fourth quarter of 2009. Interest expense in 2008 reflects additional expense associated with the issuance of \$1.0 billion of long-term debt in the fourth quarter of 2007 as part of our \$1.8 billion acquisition of Per-Se. Refer to our discussion under the caption “Credit Resources” within this Financial Review for additional information regarding our financing activities.

Income Taxes: Our reported tax rates were 22.7%, 32.1% and 25.4% in 2009, 2008 and 2007. In addition to the items noted below, fluctuations in our reported tax rate are primarily due to changes within state and foreign tax rates resulting from our business mix, including varying proportions of income attributable to foreign countries that have lower income tax rates.

In 2009, we recorded a \$182 million income tax benefit for the AWP Litigation accrual. The tax benefit could change in the future depending on the resolution of the pending and expected claims.

In 2009, income tax expense included \$111 million of net income tax benefits for discrete items, which primarily consists of the recognition of previously unrecognized tax benefits and related accrued interest. The recognition of these discrete items is primarily due to the lapsing of the statutes of limitations. Of the \$111 million of net tax benefits, \$87 million represents a non-cash benefit to McKesson. In addition, included within these discrete items is an income tax benefit of \$3 million pertaining to our \$63 million pre-tax impairment of two equity-held investments. The income tax benefit on the impairment is net of a valuation allowance of \$22 million.

In June 2008, the U.S. Internal Revenue Service (“IRS”) began its examination of fiscal years 2003 through 2006. On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (“Stabilization Act”), which included a retroactive reinstatement of the federal research and development credit, was signed into law. The Stabilization Act extends the federal research and development credit to December 31, 2009. In 2009, we recorded a benefit to our income tax provision as a result of these research and development credits. In Canada, we received an assessment from the Canada Revenue Agency (“CRA”) for a total of \$19 million related to transfer pricing for 2004. We plan to appeal the assessment. We believe we have adequately provided for any potential adverse results for 2004 and future years. In nearly all jurisdictions, the tax years prior to 2003 are no longer subject to examination. We believe that we have made adequate provision for all remaining income tax uncertainties.

In 2008, the IRS completed an examination of our consolidated income tax returns for 2000 to 2002 resulting in a signed Revenue Agent Report (“RAR”), which was approved by the Joint Committee on Taxation during the third quarter of 2008. The IRS and the Company have agreed to certain adjustments, primarily related to transfer pricing and income tax credits. As a result of the approved RAR, we recognized approximately \$25 million of net federal and state income tax benefits. In Canada, we received an assessment from the CRA for a total of \$9 million related to transfer pricing for 2003. We have filed an appeal with the Tax Court of Canada. We believe we have adequately provided for any potential adverse results for 2003. During 2008, we also favorably concluded various foreign examinations, which resulted in the recognition of approximately \$4 million of income tax benefits. Income tax expense for 2008 was also impacted by a non-tax deductible \$13 million increase in a legal reserve.

In 2007, we recorded a credit to current income tax expense of \$83 million which primarily pertained to our receipt of a private letter ruling from the IRS holding that our payment of approximately \$960 million to settle our Consolidated Securities Litigation Action is fully tax-deductible. We previously established tax reserves to reflect the lack of certainty regarding the tax deductibility of settlement amounts paid in the Consolidated Securities Litigation Action and related litigation. In 2007, we also recorded \$24 million in income tax benefits arising primarily from settlements and adjustments with various taxing authorities and research and development investment tax credits from our Canadian operations.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Discontinued Operations:

Results from discontinued operations were as follows:

<i>(In millions)</i>	Years Ended March 31,⁽¹⁾	
	2008	2007
Income (loss) from discontinued operations		
Acute Care	\$ 1	\$ (9)
Other	1	-
Income taxes	(1)	4
Total	\$ 1	\$ 5
Loss on sales of discontinued operations		
Acute Care	\$ -	\$ (49)
Other	-	10
Income taxes	-	(11)
Total	\$ -	\$ (50)
Discontinued operations, net of taxes		
Acute Care	\$ 1	\$ (66)
Other	-	11
Total	\$ 1	\$ (55)

(1) No charges for discontinued operations were incurred during 2009.

In 2007, we sold our Distribution Solutions segment's Medical-Surgical Acute Care business to Owens & Minor, Inc. ("OMI") for net cash proceeds of approximately \$160 million. Revenues associated with the Acute Care business prior to its disposition were \$597 million for 2007.

Financial results for 2007 for this discontinued operation include an after-tax loss of \$66 million, which primarily consists of an after-tax loss of \$61 million for the business' disposition and \$5 million of after-tax losses associated with operations, other asset impairment charges and employee severance costs. The after-tax loss of \$61 million for the business' disposition includes a \$79 million non-tax deductible write-off of goodwill, as further described below.

In connection with the divestiture, we allocated a portion of our Distribution Solutions segment's Medical-Surgical Distribution business' goodwill to the Acute Care business as required by SFAS No. 142, "Goodwill and Other Intangible Assets." The allocation was based on the relative fair values of the Acute Care business and the continuing businesses that are being retained by the Company. The fair value of the Acute Care business was determined based on the net cash proceeds resulting from the divestiture. As a result, we allocated \$79 million of the segment's goodwill to the Acute Care business.

Additionally, as part of the divestiture, we entered into a transition services agreement ("TSA") with OMI under which we provided certain services to the Acute Care business during a transition period of approximately six months. Financial results from the TSA, as well as employee severance charges over the transition period, were recorded as part of discontinued operations. The continuing cash flows generated from the TSA were not material to our consolidated financial statements and the TSA was completed as of March 31, 2007.

In the second quarter of 2007, we also sold a wholly-owned subsidiary, Pharmaceutical Buyers Inc., for net cash proceeds of \$10 million. The divestiture resulted in an after-tax gain of \$5 million resulting from the tax basis of the subsidiary exceeding its carrying value. Financial results for this business, which were previously included in our Distribution Solutions segment, were not material to our consolidated financial statements.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

The results for discontinued operations for 2007 also include an after-tax gain of \$6 million associated with the collection of a note receivable from a business sold in 2003 and the sale of a small business.

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," financial results for these businesses have been classified as discontinued operations for all periods presented.

Net Income: Net income was \$823 million, \$990 million and \$913 million in 2009, 2008 and 2007 and diluted earnings per share was \$2.95, \$3.32 and \$2.99. The net income and diluted earnings per share for 2009 included a pre-tax charge of \$493 million (\$311 million after-tax) for the AWP Litigation as discussed in further detail under the caption "Operating Expenses" in this financial review.

Weighted Average Diluted Shares Outstanding: Diluted earnings per share was calculated based on a weighted average number of shares outstanding of 279 million, 298 million and 305 million for 2009, 2008 and 2007. The decrease in the number of weighted average diluted shares outstanding over the past two years primarily reflects a decrease in the number of common shares outstanding as a result of stock repurchased, partially offset by exercised stock options.

International Operations

International operations accounted for 7.9%, 8.2% and 7.5% of 2009, 2008 and 2007 consolidated revenues. International operations are subject to certain risks, including currency fluctuations. We monitor our operations and adopt strategies responsive to changes in the economic and political environment in each of the countries in which we operate. Additional information regarding our international operations is also included in Financial Note 22, "Segments of Business," to the accompanying consolidated financial statements.

Acquisitions and Investment

In 2009, we made the following acquisition:

- On May 21, 2008, we acquired McQueary Brothers of Springfield, Missouri for approximately \$190 million. McQueary Brothers is a regional distributor of pharmaceutical, health and beauty products to independent and regional chain pharmacies in the Midwestern U.S. This acquisition expanded our existing U.S. pharmaceutical distribution business. The acquisition was funded with cash on hand. Approximately \$126 million of the purchase price allocation has been assigned to goodwill, which primarily reflects the expected future benefits from synergies to be realized upon integrating the business. Included in the purchase price allocation are acquired identifiable intangibles of \$61 million representing a customer relationship with a useful life of 7 years, a trade name of \$2 million with a useful life of less than one year and a not-to-compete agreement of \$4 million with a useful life of 4 years. Financial results for McQueary Brothers have been included within our Distribution Solutions segment since the date of acquisition.

In 2008, we made the following acquisition:

- On October 29, 2007, we acquired all of the outstanding shares of OTN of San Francisco, California for approximately \$519 million, including the assumption of debt and net of \$31 million of cash and cash equivalents acquired from OTN. OTN is a U.S. distributor of specialty pharmaceuticals. The acquisition of OTN expanded our existing specialty pharmaceutical distribution business. The acquisition was funded with cash on hand. Financial results for OTN are included within our Distribution Solutions segment since the date of acquisition. Approximately \$240 million of the purchase price allocation has been assigned to goodwill, which primarily reflects the expected future benefits from synergies upon integrating the business. Included in the purchase price allocation are acquired identifiable intangibles of \$115 million representing customer relationships with a weighted-average life of 9 years, developed technology of \$3 million with a weighted-average life of 4 years and trademarks and trade names of \$10 million with a weighted-average life of 5 years.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

In 2007, we made the following acquisitions and investment:

- On January 26, 2007, we acquired all of the outstanding shares of Per-Se of Alpharetta, Georgia for \$28.00 per share in cash plus the assumption of Per-Se's debt, or approximately \$1.8 billion in aggregate, including cash acquired of \$76 million. Per-Se is a leading provider of financial and administrative healthcare solutions for hospitals, physicians and retail pharmacies. The acquisition of Per-Se is consistent with the Company's strategy of providing products that help solve clinical, financial and business processes within the healthcare industry. The acquisition was initially funded with cash on hand and through the use of an interim credit facility. In March 2007, we issued \$1 billion of long-term debt, with such net proceeds after offering expenses from the issuance, together with cash on hand, being used to fully repay borrowings outstanding under the interim credit facility (refer to Financial Note 12, "Long-Term Debt and Other Financing" to the accompanying consolidated financial statements). Financial results for Per-Se are primarily included within our Technology Solutions segment.

Approximately \$1,258 million of the purchase price allocation has been assigned to goodwill, which primarily reflects the expected future benefits from synergies upon integrating the business. Included in the purchase price allocation are acquired identifiable intangibles of \$402 million representing customer relationships with a weighted-average life of 10 years, developed technology of \$56 million with a weighted-average life of 5 years and trademark and trade names of \$13 million with a weighted-average life of 5 years.

In connection with the purchase price allocation, we have estimated the fair value of the support obligations assumed from Per-Se in connection with the acquisition. The estimated fair value of these obligations was determined utilizing a cost build-up approach. The cost build-up approach determines fair value by estimating the costs relating to fulfilling the obligations plus a normal profit margin. The sum of the costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume these obligations. As a result, in allocating the purchase price, we recorded an adjustment to reduce the carrying value of Per-Se's deferred revenue by \$17 million to \$30 million, which represents our estimate of the fair value of the obligation assumed.

- Our Technology Solutions segment acquired RelayHealth Corporation ("RelayHealth") based in Emeryville, California. RelayHealth is a provider of secure online healthcare communication services linking patients, healthcare professionals, payors and pharmacies. This segment also acquired two other entities, one specializing in patient billing solutions designed to simplify and enhance healthcare providers' financial interactions with their patients and the other a provider of integrated software for electronic health records, medical billing and appointment scheduling for independent physician practices. The total cost of these three entities was \$90 million, which was paid in cash. Goodwill recognized in these transactions amounted to \$63 million.
- Our Distribution Solutions segment acquired Sterling Medical Services, LLC ("Sterling,") which is based in Moorestown, New Jersey. Sterling is a national provider and distributor of disposable medical supplies, health management services and quality management programs to the home care market. This segment also acquired a medical supply sourcing agent. The total cost of these two entities was \$95 million, which was paid in cash. Goodwill recognized in these transactions amounted to \$47 million.
- We contributed \$36 million in cash and \$45 million in net assets primarily from our Pharmacy Systems and Automation business to Parata, in exchange for a significant minority interest in Parata. Parata is a manufacturer of pharmacy robotic equipment.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

During the last three years, we also completed a number of other smaller acquisitions and investments within both of our operating segments. Financial results for our business acquisitions have been included in our consolidated financial statements since their respective acquisition dates. Purchase prices for our business acquisitions have been allocated based on estimated fair values at the date of acquisition and for certain recent acquisitions, may be subject to change as we continue to evaluate and implement various restructuring initiatives. Goodwill recognized for our business acquisitions is not generally expected to be deductible for tax purposes. Pro forma results of operations for our business acquisitions have not been presented because the effects were not material to the consolidated financial statements on either an individual or an aggregate basis. Refer to Financial Note 2, "Acquisitions and Investment," to the accompanying consolidated financial statements for further discussions regarding our acquisitions and investing activities.

2010 Outlook

Information regarding the Company's 2010 outlook is contained in our Form 8-K dated May 4, 2009. This Form 8-K should be read in conjunction with the sections "Factors Affecting Forward-looking Statements" and "Additional Factors That May Affect Future Results" included in this Financial Review.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We consider an accounting estimate to be critical if the estimate requires us to make assumptions about matters that were uncertain at the time the accounting estimate was made and if different estimates that we reasonably could have used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on our financial condition or results from operations. Below are the estimates that we believe are critical to the understanding of our operating results and financial condition. Other accounting policies are described in Financial Note 1, "Significant Accounting Policies," to the accompanying consolidated financial statements. Because of the uncertainty inherent in such estimates, actual results may differ from these estimates.

Allowance for Doubtful Accounts: We provide short-term credit and other customer financing arrangements to customers who purchase our products and services. Other customer financing primarily relates to guarantees provided to our customers, or their creditors, regarding the repurchase of inventories. We also provide financing to certain customers related to the purchase of pharmacies, which serve as collateral for the loans. We estimate the receivables for which we do not expect full collection based on historical collection rates and specific knowledge regarding the current creditworthiness of our customers. An allowance is recorded in our consolidated financial statements for these amounts.

In determining the appropriate allowance for doubtful accounts, which includes portfolio and specific reserves, the Company reviews accounts receivable aging, industry trends, customer financial strength, credit standing, historical write-off trends and payment history to assess the probability of collection. If the frequency and severity of customer defaults due to our customers' financial condition or general economic conditions change, our allowance for uncollectible accounts may require adjustment. As a result, we continuously monitor outstanding receivables and other customer financing and adjust allowances for accounts where collection may be in doubt. At March 31, 2009, revenues and accounts receivable from our ten largest customers accounted for approximately 52% of consolidated revenues and approximately 49% of accounts receivable. At March 31, 2009, revenues and accounts receivable from our two largest customers, CVS Caremark Corporation ("Caremark") and Rite Aid Corporation ("Rite Aid"), represented approximately 14% and 12% of total consolidated revenues and 14% and 10% of accounts receivable. As a result, our sales and credit concentration is significant. Any defaults in payment or a material reduction in purchases from this or any other large customer could have a significant negative impact on our financial condition, results of operations and liquidity.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Reserve methodologies are assessed annually based on historical losses and economic, business and market trends. In addition, reserves are reviewed quarterly and updated if unusual circumstances or trends are present. We believe the reserves maintained and expenses recorded in 2009 are appropriate and consistent with historical methodologies employed. At this time, we are not aware of any internal process or customer issues that might lead to a significant future increase in our allowance for doubtful accounts as a percentage of net revenue.

At March 31, 2009, trade and notes receivables were \$7,029 million prior to allowances of \$152 million. In 2009, 2008 and 2007 our provision for bad debts was \$29 million, \$41 million and \$24 million. At March 31, 2009 and 2008, the allowance as a percentage of trade and notes receivables was 2.2% and 2.5%. An increase or decrease of 0.1% in the 2009 allowance as a percentage of trade and notes receivables would result in an increase or decrease in the provision on receivables of approximately \$7 million. Additional information concerning our allowance for doubtful accounts may be found in Schedule II included in this Annual Report on Form 10-K.

Inventories: We state inventories at the lower of cost or market (“LCM.”) Inventories for our Distribution Solutions segment consist of merchandise held for resale. For our Distribution Solutions segment, the majority of the cost of domestic inventories is determined on the last-in, first-out (“LIFO”) method and Canadian inventories are stated using the first-in, first-out (“FIFO”) method. Technology Solutions segment inventories consist of computer hardware with cost determined by the standard cost method. Rebates, fees, cash discounts, allowances, chargebacks and other incentives received from vendors are generally accounted for as a reduction in the cost of inventory and are recognized when the inventory is sold. Total inventories were \$8.5 billion and \$9.0 billion at March 31, 2009 and 2008.

The LIFO method was used to value approximately 88% of our inventories at March 31, 2009 and 2008. At March 31, 2009 and 2008, our LIFO reserves, net of LCM adjustments (discussed below), were \$85 million and \$77 million. LIFO reserves include both pharmaceutical and non-pharmaceutical products. In 2009, 2008 and 2007, we recognized net LIFO expense of \$8 million and net LIFO credits of \$14 million and \$64 million within our consolidated statements of operations. A LIFO expense is recognized when the net effect of price increases on branded pharmaceuticals and non-pharmaceutical products held in inventory exceeds the impact of price declines and shifts towards generic pharmaceutical products, including the effect of branded pharmaceutical products that have lost market exclusivity. A LIFO credit is recognized when the impact of price declines and shifts towards generic pharmaceutical products exceeds the impact of price increases on branded pharmaceuticals and non-pharmaceutical products held in inventory. In 2009, our \$8 million net LIFO expense related to our non-pharmaceutical products.

We believe that the FIFO inventory costing method provides a reasonable estimation of the current cost of replacing inventory (i.e., “market”). As such, our LIFO inventory is valued at the lower of LIFO or inventory as valued under FIFO. Primarily due to continued deflation in generic pharmaceutical inventories, pharmaceutical inventories at LIFO were \$107 million and \$43 million higher than FIFO as of March 31, 2009 and 2008. As a result, in 2009 and 2008, we recorded LCM charges of \$64 million and \$43 million within our consolidated statements of operations to adjust our LIFO inventories to market. As deflation in generic pharmaceuticals continues, we anticipate that LIFO credits from our pharmaceutical products will be fully offset by LCM reserves.

In determining whether inventory valuation issues exist, we consider various factors including estimated quantities of slow-moving inventory by reviewing on-hand quantities, outstanding purchase obligations and forecasted sales. Shifts in market trends and conditions, changes in customer preferences due to the introduction of generic drugs or new pharmaceutical products or the loss of one or more significant customers are factors that could affect the value of our inventories. We provide reserves for excess and obsolete inventory, if indicated as a result of these reviews. These factors could make our estimates of inventory valuation differ from actual results.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Acquisitions: We account for acquired businesses using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Amounts allocated to acquired in-process research and development are expensed at the date of acquisition. The judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact our results of operations. The valuations are based on information available near the acquisition date and are based on expectations and assumptions that have been deemed reasonable by management.

There are several methods that can be used to determine the fair value of assets acquired and liabilities assumed. For intangible assets, we typically use the income method. This method starts with a forecast of all of the expected future net cash flows. These cash flows are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. Some of the more significant estimates and assumptions inherent in the income method or other methods include the amount and timing of projected future cash flows, the discount rate selected to measure the risks inherent in the future cash flows and the assessment of the asset's life cycle and the competitive trends impacting the asset, including consideration of any technical, legal, regulatory or economic barriers to entry. Determining the useful life of an intangible asset also requires judgment as different types of intangible assets will have different useful lives and certain assets may even be considered to have indefinite useful lives. Refer to Financial Note 2, "Acquisitions and Investment," to the accompanying consolidated financial statements for additional information regarding our acquisitions.

Goodwill: As a result of acquiring businesses, we have \$3,528 million and \$3,345 million of goodwill at March 31, 2009 and 2008. We maintain goodwill assets on our books unless the assets are deemed to be impaired. We perform an impairment test on goodwill balances annually in the fourth quarter or more frequently if indicators for potential impairment exist. Indicators that are considered include, but are not limited to, significant changes in performance relative to expected operating results, significant changes in the use of the assets, significant negative industry or economic trends or a significant decline in the Company's stock price and/or market capitalization for a sustained period of time.

Impairment testing is conducted at the reporting unit level, which is generally defined as a component -- one level below our Distribution Solutions and Technology Solutions operating segments, for which discrete financial information is available and segment management regularly reviews the operating results of that unit. Components that have essentially similar operations, products, services and customers are aggregated as a single reporting unit. Management judgment is involved in determining which components may be combined and changes in these combinations could affect the outcome of the testing.

Impairment tests require that we first compare the carrying value of net assets to the estimated fair value of net assets for the reporting units. If carrying value exceeds fair value, a second step would be performed to calculate the amount of impairment, which would be recorded as a charge in the consolidated statements of operations. Fair values can be determined using market, income or cost approaches. To estimate the fair value of a business using the market approach, we compare the business to similar businesses or guideline companies whose securities are actively traded in public markets or the income approach, where we use a discounted cash flow model in which cash flows anticipated over several periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate rate of return.

Some of the more significant estimates and assumptions inherent in the goodwill impairment estimation process using the market approach include the selection of appropriate guideline companies, the determination of market value multiples for the guideline companies, the subsequent selection of an appropriate market value multiple for the business based on a comparison of the business to the guideline companies, the determination of applicable premiums and discounts based on any differences in marketability between the business and the guideline companies, projected earnings and revenues for the business and when considering the income approach, include the required rate of return used in the discounted cash flow method, which reflects capital market conditions and the specific risks associated with the business. Other estimates inherent in the income approach include long-term growth rates and cash flow forecasts for the business.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Estimates of fair value result from a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions at a point in time. The judgments made in determining an estimate of fair value can materially impact our results of operations. The valuations are based on information available as of the impairment review date and are based on expectations and assumptions that have been deemed reasonable by management. Any changes in key assumptions, including failure to meet business plans, a further deterioration in the market or other unanticipated events and circumstances, may affect the accuracy or validity of such estimates and could potentially result in an impairment charge.

In 2009 and 2008, we concluded that there was no impairment of our goodwill. In September 2006, we sold our Distribution Solutions segment's Acute Care medical-surgical supply business and allocated \$79 million of the segment's goodwill to the divested business. The allocation was based on the relative fair values of the Acute Care business and continuing businesses that were retained by the Company.

Supplier Incentives: We receive fees for service and other incentives from our suppliers, such as volume-related rebates and cash discounts, relating to the purchase or distribution of inventory. We consider these fees and other incentives to represent product discounts and as a result, the amounts are recorded as a reduction of product cost and are recognized through cost of goods sold upon the sale of the related inventory.

Supplier Reserves: We establish reserves against amounts due from our suppliers relating to various price and rebate incentives, including deductions or billings taken against payments otherwise due to them from us. These reserve estimates are established based on our best judgment after carefully considering the status of current outstanding claims, historical experience with the suppliers, the specific incentive programs and any other pertinent information available to us including the vendor's financial condition. We evaluate amounts due from our suppliers on a continual basis and adjust the reserve estimates when appropriate based on changes in factual circumstances. As of March 31, 2009 and 2008, supplier reserves were \$113 million and \$82 million. All of the supplier reserves at March 31, 2009 and 2008 pertain to our Distribution Solutions segment. A hypothetical 0.1% percentage increase or decrease in the supplier reserve as a percentage of trade payables would have resulted in an increase or decrease in the cost of sales of approximately \$11 million in 2009. The ultimate outcome of any amounts due from our suppliers may be different from our estimate.

Income Taxes: Our income tax expense, deferred tax assets and liabilities reflect management's best assessment of estimated current and future taxes to be paid. We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax provision and in evaluating income tax uncertainties under Financial Accounting Standards Board Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes." We review our tax positions at the end of each quarter and adjust the balances as new information becomes available.

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets, we consider all available positive and negative evidence including our past operating results, the existence of cumulative net operating losses in the most recent years and our forecast of future taxable income. In estimating future taxable income, we develop assumptions including the amount of future state, federal and foreign pre-tax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we use to manage the underlying businesses. We had deferred income tax assets of \$1,572 million and \$1,290 million at March 31, 2009 and 2008 and deferred tax liabilities of \$1,889 million and \$1,555 million. Deferred tax assets primarily consist of net loss carryforwards and timing differences on our compensation and benefit related accruals as well as on our AWP Litigation accrual. Deferred tax liabilities primarily consist of basis differences for inventory valuation (including inventory valued at LIFO) and other assets. We established valuation allowances of \$125 million and \$27 million, against certain deferred tax assets, which primarily relates to federal, state and foreign loss carryforwards for which the ultimate realization of future benefits is uncertain. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. Should tax laws change, including those laws pertaining to LIFO, our cash flows could be materially impacted. Management is currently not aware of any such changes that could have a material effect on the Company's results of operations, cash flows or financial position.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

If our assumptions and estimates described above were to change, an increase/decrease of 1% in our effective tax rate as applied to income from continuing operations would have increased/decreased tax expense by approximately \$11 million, or \$0.04 per diluted share, for 2009.

Share-Based Payment: Our compensation programs include share-based payments. We account for all share-based payment transactions using a fair-value based measurement method. The share-based compensation expense is recognized, for the portion of the awards that is ultimately expected to vest, on a straight-line basis over the requisite service period for those awards with graded vesting and service conditions. For awards with performance conditions and multiple vest dates, we recognize the expense on a graded vesting basis. For awards with performance conditions and a single vest date, we recognize the expense on a straight-line basis. We utilize the “short-cut” method for calculating the tax effects of share-based compensation.

We estimate the grant-date fair value of employee stock options using the Black-Scholes option-pricing model. We believe that it is difficult to accurately measure the value of an employee stock option. Our estimates of employee stock option values rely on estimates of factors we input into the model. The key factors involve an estimate of future uncertain events. The key factors influencing the estimation process, among others, are the expected life of the option, the expected stock price volatility factor and the expected dividend yield. In determining the expected life of the option, we primarily use historical experience as our best estimate of future exercise patterns. We use a combination of historical and implied market volatility to determine the expected stock price volatility factor. We believe that this market-based input provides a better estimate of our future stock price movements and is consistent with employee stock option valuation considerations. Once the fair values of employee stock options are determined, current accounting practices do not permit them to be changed, even if the estimates used are different from actual.

In addition, we develop an estimate of the number of share-based awards which will ultimately vest primarily based on historical experience. Changes in the estimated forfeiture rate can have a material effect on share-based compensation expense. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment is made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment is made to decrease the estimated forfeiture rate, which will result in an increase to the expense recognized in the financial statements. We re-assess the estimated forfeiture rate established upon grant periodically throughout the requisite service period. Such estimates are revised if they differ materially from actual forfeitures. As required, the forfeiture estimates will be adjusted to reflect actual forfeitures when an award vests. The actual forfeitures in future reporting periods could be materially higher or lower than our current estimates.

Our assessments of estimated share-based compensation charges are affected by our stock price as well as assumptions regarding a number of complex and subjective variables and the related tax impact. These variables include, but are not limited to, the volatility of our stock price, employee stock option exercise behavior, timing, number and types of annual share-based awards and the attainment of performance goals. As a result, the future share-based compensation expense may differ from the Company’s historical amounts. In 2009, 2008 and 2007, share-based compensation expense was \$0.23, \$0.20 and \$0.13 per diluted share.

Loss Contingencies: We are subject to various claims, pending and potential legal actions for product liability and other damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of business. Each significant matter is regularly reviewed and assessed for potential financial exposure. If a potential loss is considered probable and can be reasonably estimated, we accrue a liability in the consolidated financial statements. The assessment of probability and estimation of amount is highly subjective and requires significant judgment due to uncertainties related to these matters and is based on the best information available at the time. The accruals are adjusted, as appropriate, as additional information becomes available. We regularly review contingencies to determine the adequacy of the accruals and related disclosures. The amount of actual loss may differ significantly from these estimates.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)****FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES**

We expect our available cash generated from operations, together with our existing sources of liquidity from our accounts receivable sales facility and short-term borrowings under the revolving credit facility and commercial paper, will be sufficient to fund our long-term and short-term capital expenditures, working capital and other cash requirements. In addition, from time to time, we may access the long-term debt capital markets to discharge our other liabilities.

Net cash flow from operating activities was \$1,351 million in 2009, compared with \$869 million in 2008 and \$1,539 million in 2007. Operating activities for 2009 include a non-cash charge of \$493 million and the related income tax benefit of \$182 million for the AWP Litigation. Operating activities for 2009 reflect an increase in receivables primarily associated with our revenue growth as well as longer payment terms for customers and improvement in our net financial inventory (inventory, net of accounts payable). Cash flows from operations can also be significantly impacted by factors such as the timing of receipts from customers and payments to vendors.

Operating activities for 2008 were affected by a use of cash of \$962 million due to the release of restricted cash for our Consolidated Securities Litigation Action. In addition, operating activities in 2008 reflect changes in our working capital accounts due to revenue growth.

Operating activities for 2007 benefited from improved accounts receivable management, reflecting changes in our customer mix, our termination of a customer contract and an increase in accounts payable associated with improved payment terms. These benefits were partially offset by increases in inventory needed to support our growth and timing of inventory receipts. Operating activities for 2007 also include payments of \$25 million for the settlements of Securities Litigation cases.

Net cash used in investing activities was \$727 million in 2009, compared with \$5 million in 2008 and \$2,108 million in 2007. Investing activities for 2009 include \$358 million of cash payments for business acquisitions, including the McQueary Brothers acquisition for approximately \$190 million. Investing activities for 2008 benefited from the \$962 million release of restricted cash for our Consolidated Securities Litigation Action. Investing activities include \$610 million in 2008 of cash paid for business acquisitions, including OTN. Investing activities for 2007 reflect \$1,938 million of cash paid for our business acquisitions (including \$1.8 billion for Per-Se). Investing activities for 2007 also reflect \$179 million of cash proceeds from the sale of various businesses, including net cash proceeds of \$160 million for the sale of our Acute Care business.

Financing activities provided cash of \$178 million in 2009, utilized cash of \$1,470 million in 2008 and provided cash of \$379 million in 2007. Financing activities for 2009 include our February 2009 issuance of \$350 million of 6.50% notes due 2014 and \$350 million of 7.50% notes due 2019. Net proceeds of \$699 million from the issuance of the notes, after offering expenses, will be used by the Company for general corporate purposes. Financing activities for 2009 were also impacted by \$502 million of cash paid for share repurchases, \$116 million of dividends paid and \$97 million of cash receipts from employees' exercises of stock options.

Financing activities for 2008 include \$1.7 billion of cash paid for stock repurchases and \$70 million of dividends paid, partially offset by \$354 million of cash receipts from common stock issuances.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Financing activities for 2007 include our March 2007 issuance of \$500 million of 5.25% notes due 2013 and \$500 million of 5.70% notes due 2017. Net proceeds of \$997 million from the issuance of the notes, after offering expenses, were used, together with cash on hand, to repay \$1.0 billion of short-term borrowings then outstanding under the interim facility we entered into in connection with the acquisition of Per-Se. Financing activities for 2007 also include \$1.0 billion of cash paid for stock repurchases and \$72 million of dividends paid, partially offset by \$399 million of cash receipts from common stock issuances.

The Company's Board of Directors (the "Board") has authorized the repurchase of McKesson's common stock from time to time in open market or private transactions, which is described in more detail in Financial Note 19, "Stockholders' Equity," to the accompanying consolidated financial statements. During 2009, 2008 and 2007, the Company repurchased \$484 million, \$1,686 million and \$1,001 million of its common stock at average prices of \$50.52, \$59.48 and \$51.46. As of March 31, 2009, \$830 million remained available for future repurchases under the outstanding April 2008 Board approved share repurchase plan.

In July 2008, the Board authorized the retirement of shares of the Company's common stock that may be repurchased from time to time pursuant to its stock repurchase program. During the second quarter of 2009, all of the 4 million repurchased shares, which we purchased for \$204 million, were formally retired by the Company. The retired shares constitute authorized but unissued shares. We elected to allocate any excess of share repurchase price over par value between additional paid-in capital and retained earnings. As such, \$165 million was recorded as a decrease to retained earnings.

In April 2008, the Board approved a change in the Company's dividend policy by increasing the amount of the Company's quarterly dividend from six cents to twelve cents per share, applicable to ensuing quarterly dividend declarations until further action by the Board. The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon the Company's future earnings, financial condition, capital requirements and other factors.

Although we believe that our operating cash flow, financial assets, current access to capital and credit markets, as evidenced by our most recent debt issuance in February 2009, including our existing credit and sales facilities, will give us the ability to meet our financing needs for the foreseeable future, there can be no assurance that continued or increased volatility and disruption in the global capital and credit markets will not impair our liquidity or increase our costs of borrowing.

Selected Measures of Liquidity and Capital Resources:

<i>(Dollars in millions)</i>	March 31,		
	2009	2008	2007
Cash and cash equivalents	\$ 2,109	\$ 1,362	\$ 1,954
Working capital	3,065	2,438	2,730
Debt, net of cash and cash equivalents	403	435	4
Debt to capital ratio ⁽¹⁾	28.9%	22.7%	23.8%
Net debt to net capital employed ⁽²⁾	6.1%	6.6%	0.1%
Return on stockholders' equity ⁽³⁾	13.2%	15.6%	15.2%

(1) Ratio is computed as total debt divided by total debt and stockholders' equity.

(2) Ratio is computed as total debt, net of cash and cash equivalents ("net debt"), divided by net debt and stockholders' equity ("net capital employed").

(3) Ratio is computed as net income, divided by a five-quarter average of stockholders' equity.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Our cash and equivalents balance as of March 31, 2009 included approximately \$900 million of cash held by our subsidiaries outside of the United States. Although the vast majority of cash held outside the United States is available for repatriation, doing so could subject us to U.S. federal, state and local income tax. We may temporarily access cash held by foreign subsidiaries without subjecting us to U.S. federal, state and local income tax through intercompany loans. A notice issued by the IRS in January 2009 announced that the Treasury Department will, for a temporary period, extend the permitted duration of such intercompany loans that qualify for suspended deemed dividend treatment under Section 956 of the Internal Revenue Code of 1986, as amended. Pursuant to the IRS notice, such intercompany loans from foreign subsidiaries to the U.S. parent must be less than 60 days in duration and borrowing activities cannot exceed 180 cumulative days during the year. At March 31, 2009, there were no intercompany loans outstanding. The position set forth in the notice will apply for the Company until March 31, 2011.

Working capital primarily includes cash and cash equivalents, receivables, inventories, net of drafts and accounts payable and other current liabilities. Our Distribution Solutions segment requires a substantial investment in working capital that is susceptible to large variations during the year as a result of inventory purchase patterns and seasonal demands. Inventory purchase activity is a function of sales activity and new customer build-up requirements.

Consolidated working capital increased at March 31, 2009 compared with March 31, 2008 primarily due to increases in cash and cash equivalents and accounts receivable, partially offset by our \$493 million AWP Litigation accrual and a higher current portion of long-term debt. Consolidated working capital decreased at March 31, 2008 compared with March 31, 2007 primarily due to a decrease in cash and cash equivalents, a decrease in net financial inventory (inventory, net of drafts and accounts payable) and an increase in other accrued liabilities. These decreases in working capital were partially offset by an increase in account receivables and the one-time benefit associated with a \$420 million reclassification of short-term tax liabilities to long-term liabilities as a result of our implementation of FIN No. 48.

Our ratio of net debt to net capital employed decreased at March 31, 2009 compared with March 31, 2008 primarily reflecting an increase in cash and cash equivalents, partially offset by our issuance of \$700 million of long-term debt. This ratio increased at March 31, 2008 compared with March 31, 2007 primarily reflecting a decrease in cash and cash equivalents.

The Company has paid quarterly cash dividends at the rate of \$0.06 per share on its common stock since the fourth quarter of 1999. A dividend of \$0.06 per share was declared by the Board on January 23, 2008 and was paid on April 1, 2008 to stockholders of record at the close of business on March 3, 2008. In April 2008, the Board approved a change in the Company's dividend policy by increasing the amount of the Company's quarterly dividend from six cents to twelve cents per share, applicable to ensuing quarterly dividend declarations until further action by the Board. The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon the Company's future earnings, financial condition, capital requirements and other factors. In 2009, 2008 and 2007, we paid total cash dividends of \$116 million, \$70 million and \$72 million.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Contractual Obligations:

The table below presents our significant financial obligations and commitments at March 31, 2009:

		Years			
(In millions)	Total	Within 1	Over 1 to 3	Over 3 to 5	After 5
On balance sheet					
Long-term debt ⁽¹⁾	\$ 2,509	\$ 219	\$ 419	\$ 848	\$ 1,023
Interest on borrowings ⁽²⁾	1,052	166	293	205	388
Other ⁽³⁾	683	379	55	44	205
Off balance sheet					
Purchase obligations ⁽⁴⁾	3,574	3,353	110	82	29
Customer guarantees ⁽⁵⁾	114	51	24	1	38
Operating lease obligations ⁽⁶⁾	427	105	162	81	79
Total	\$ 8,359	\$ 4,273	\$ 1,063	\$ 1,261	\$ 1,762

- (1) Represents maturities of the Company's long-term obligations including capital lease obligations. See Financial Note 12, "Long-Term Debt and Other Financing," for further information.
- (2) Primarily represents interest that will be due in the future on our fixed rate long-term debt obligations.
- (3) Primarily includes our AWP Litigation accrual and our estimated payments for pension and postretirement plans.
- (4) A purchase obligation is defined as an arrangement to purchase goods or services that is enforceable and legally binding on the Company. These obligations primarily relate to inventory purchases, capital commitments and service agreements.
- (5) Represents primarily agreements with certain of our customers' financial institutions (primarily for our Canadian business) under which we have guaranteed the repurchase of inventory at a discount in the event these customers are unable to meet certain obligations to those financial institutions. Among other limitations, these inventories must be in resalable condition. The inventory repurchase agreements mostly range from one to two years. Customer guarantees range from one to five years and were primarily provided to facilitate financing for certain customers. The majority of our other customer guarantees are secured by certain assets of the customer. At March 31, 2009, the maximum amounts of inventory repurchase guarantees and other customer guarantees were \$102 million and \$10 million. We consider it unlikely that we would make significant payments under these guarantees and accordingly, no amounts had been accrued at March 31, 2009. Refer to Financial Note 17, "Financial Guarantees and Warranties," for further information.
- (6) Represents minimum rental payments and the related future interest payments for operating leases. See Financial Note 16, "Lease Obligations," for further information.

At March 31, 2009, the liability recorded for uncertain tax positions, excluding associated interest and penalties, was approximately \$526 million pursuant to FIN No. 48, "Accounting for Uncertainty in Income Taxes." This liability represents an estimate of tax positions that the Company has taken in its tax returns which may ultimately not be sustained upon examination by the tax authorities. Since the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty, the estimated FIN No. 48 liability has been excluded from the contractual obligations table.

In addition, our banks and insurance companies have issued \$115 million of standby letters of credit and surety bonds on our behalf mostly in order to meet the security requirements for statutory licenses and permits, court and fiduciary obligations and our workers' compensation and automotive liability programs.

Credit Resources:

We fund our working capital requirements primarily with cash and cash equivalents, our accounts receivable sales facility, short-term borrowings under the revolving credit facility and commercial paper.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)***Accounts Receivable Sales Facility:*

In June 2008, we renewed our accounts receivable sales facility under substantially similar terms to those previously in place, except that we increased the committed balance from \$700 million to \$1.0 billion. The renewed facility expires in June 2009. We anticipate renewing this facility before its expiration. Through this facility, McKesson Corporation sells certain U.S. Pharmaceutical trade accounts receivable on a non-recourse basis to a wholly-owned and consolidated subsidiary which then sells these receivables to a special purpose entity (“SPE”), which is a wholly-owned, bankruptcy-remote subsidiary of McKesson Corporation that is consolidated in our financial statements. This SPE then sells undivided interests in the receivables to third-party purchaser groups, each of which includes commercial paper conduits (“Conduits”), which are special purpose corporations administered by financial institutions.

Sales of undivided interests in the receivables by the SPE to the Conduits are accounted for as a sale in accordance with SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” because we have relinquished control of the receivables. Accordingly, accounts receivable sold under these transactions are excluded from receivables, net in the accompanying consolidated balance sheets. Receivables sold and receivables retained by the Company are carried at face value, which due to the short-term nature of our accounts receivable and terms of the facility, approximates fair value. McKesson receives cash in the amount of the face value for the receivables sold. No gain or loss is recorded upon sale as fee charges from the Conduits are based upon a floating yield rate and the period the undivided interests remain outstanding. Fee charges from the Conduits are accrued at the end of each month. Should we default under the accounts receivable sales facility, the Conduits are entitled to receive only collections on receivables owned by the SPE.

Information regarding our outstanding balances related to our interests in accounts receivable sold or qualifying receivables retained is as follows:

<i>(In millions)</i>	March 31, 2009	March 31, 2008
Receivables sold outstanding ⁽¹⁾	\$ -	\$ -
Receivables retained, net of allowance for doubtful accounts	4,814	4,251

(1) Deducted from receivables, net in the consolidated balance sheets.

The following table summarizes the activity related to our interests in accounts receivable sold:

<i>(In millions)</i>	Years Ended March 31,		
	2009	2008	2007
Proceeds from accounts receivable sales	\$ 5,780	\$ 1,075	\$ -
Fees and charges ^{(1) (2)}	10	2	-

(1) Recorded in operating expenses in the consolidated statements of operations.

(2) Fee charges related to the sale of receivables to the Conduits for the year ended March 31, 2007 were not material.

The delinquency ratio for the qualifying receivables represented less than 1% of the total qualifying receivables as of March 31, 2009 and 2008.

We continue servicing the receivables sold. No servicing asset is recorded at the time of sale because we do not receive any servicing fees from third parties or other income related to servicing the receivables. We do not record any servicing liability at the time of sale as the receivables collection period is relatively short and the costs of servicing the receivables sold over the servicing period are insignificant. Servicing costs are recognized as incurred over the servicing period.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)***Revolving Credit Facility*

We have a \$1.3 billion five-year, senior unsecured revolving credit facility which expires in June 2012. Borrowings under this credit facility bear interest based upon either a Prime rate or the London Interbank Offering Rate. Total borrowings under this facility were \$279 million for 2009. There were no borrowings for 2008. As of March 31, 2009 and 2008, there were no amounts outstanding under this facility.

In January 2007, we entered into a \$1.8 billion interim credit facility. The interim credit facility was a single-draw 364-day unsecured facility with terms substantially similar to those contained in the Company's existing revolving credit facility. We utilized \$1.0 billion of this facility to fund a portion of our purchase of Per-Se.

Commercial Paper

We issued and repaid approximately \$3.3 billion and \$260 million in commercial paper during 2009 and 2008. There were no commercial paper issuances outstanding at March 31, 2009 and 2008.

Our senior debt credit ratings from S&P, Fitch, and Moody's are currently BBB+, BBB+ and Baa3, and our commercial paper ratings are currently A-2, F-2 and P-3. Our ratings outlook is positive with S&P and stable with Fitch and Moody's. Our various borrowing facilities and certain long-term debt instruments are subject to covenants. Our principal debt covenant is our debt to capital ratio, which cannot exceed 56.5%. If we exceed this ratio, repayment of debt outstanding under the revolving credit facility and \$215 million of term debt could be accelerated. At March 31, 2009, this ratio was 28.9% and we were in compliance with all other covenants. A reduction in our credit ratings or the lack of compliance with our covenants could result in a negative impact on our ability to finance our operations.

Funds necessary for the resolution of future debt maturities and our other cash requirements are expected to be met by existing cash balances, cash flows from operations, existing credit sources and other capital market transactions.

MARKET RISKS

Interest rate risk: Our long-term debt bears interest predominately at fixed rates, whereas our short-term borrowings are at variable interest rates. If the underlying weighted average interest rate on our variable rate debt were to have changed by 50 bp in 2009, interest expense would not have been materially different from that reported.

Our cash and cash equivalent balances earn interest at variable rates. Given recent declines in interest rates, our interest income may be negatively impacted. If the underlying weighted average interest rate on our cash and cash equivalent balances changed by 50 bp in 2009, interest income would have increased or decreased by approximately \$7 million.

As of March 31, 2009 and 2008, the net fair value liability of financial instruments with exposure to interest rate risk was approximately \$2,545 million and \$1,861 million. Fair value was estimated on the basis of quoted market prices, although trading in these debt securities is limited and may not reflect fair value. Fair value is subject to fluctuations based on our performance, our credit ratings, changes in the value of our stock and changes in interest rates for debt securities with similar terms.

Foreign exchange risk: We derive revenues and earnings from Canada, the United Kingdom, Ireland, other European countries, Israel, Asia Pacific and Mexico, which expose us to changes in foreign exchange rates. We seek to manage our foreign exchange risk in part through operational means, including managing same currency revenues in relation to same currency costs, and same currency assets in relation to same currency liabilities. Foreign exchange risk is also managed through the use of foreign currency forward-exchange contracts. These contracts are used to offset the potential earnings effects from mostly intercompany foreign currency investments and loans. As of March 31, 2009, an adverse 10% change in quoted foreign currency exchange rates would not have had a material impact on our net fair value of financial instruments that have exposure to foreign currency risk.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)****RELATED PARTY BALANCES AND TRANSACTIONS**

Information regarding our related party balances and transactions is included in “Critical Accounting Policies and Estimates” appearing within this Financial Review and Financial Note 20, “Related Party Balances and Transactions,” to the accompanying consolidated financial statements.

NEW ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements that we have recently adopted, as well as those that have been recently issued but not yet adopted by us, are included in Financial Note 1, “Significant Accounting Policies,” to the accompanying consolidated financial statements.

FACTORS AFFECTING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of Part II of this report, contains certain forward-looking statements within the meaning of section 27A of the Securities Act of 1933, as amended and section 21E of the Securities Exchange Act of 1934, as amended. Some of these statements can be identified by use of forward-looking words such as “believes,” “expects,” “anticipates,” “may,” “will,” “should,” “seeks,” “approximately,” “intends,” “plans” or “estimates,” or the negative of these words, or other comparable terminology. The discussion of financial trends, strategy, plans or intentions may also include forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected, anticipated or implied. Although it is not possible to predict or identify all such risks and uncertainties, they may include, but are not limited to, the factors discussed under “Additional Factors That May Affect Future Results.” The reader should not consider this list to be a complete statement of all risks and uncertainties.

These and other risks and uncertainties are described herein and in other information contained in our publicly available Securities and Exchange Commission (“SEC”) filings and press releases. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date such statements were first made. Except to the extent required by federal securities laws, we undertake no obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof, or to reflect the occurrence of unanticipated events.

ADDITIONAL FACTORS THAT MAY AFFECT FUTURE RESULTS

We are subject to legal proceedings that could have a material adverse impact on our financial position and results of operations.

From time to time and in the ordinary course of our business, we and certain of our subsidiaries may become involved in various legal proceedings involving antitrust, commercial, employment, environmental, intellectual property, regulatory, tort and other various claims. All such legal proceedings are inherently unpredictable and the outcome can result in excessive verdicts and/or injunctive relief that may affect how we operate our business or we may enter into settlements of claims for monetary damages. Future court decisions and legislative activity may increase the Company’s exposure to litigation and regulatory investigations. In some cases, substantial non-economic remedies or punitive damages may be sought. For some complaints filed against the Company, we are currently unable to estimate the remaining amount of possible losses that might be incurred should these legal proceedings be resolved against the Company.

The outcome of litigation and other legal matters is always uncertain and outcomes that are not justified by the evidence or existing law can occur. The Company believes that it has valid defenses to the legal matters pending against it and is defending itself vigorously. Nevertheless, it is possible that resolution of one or any combination of more than one legal matter could result in a material adverse impact on our financial position or results of operations. For example, we are involved in a number of legal proceedings described in Financial Note 18, “Other Commitments and Contingent Liabilities,” to the accompanying consolidated financial statements which could have such an impact, including class actions and other legal proceedings alleging that we engaged in illegal conduct that caused average wholesale prices to rise for certain prescription drugs during specified periods.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Litigation is costly, time-consuming and disruptive to normal business operations. The defense of these matters could also result in continued diversion of our management's time and attention away from business operations, which could also harm our business. Even if these matters are not resolved against us, the uncertainty and expense associated with unresolved legal proceedings could harm our business and reputation. For additional information regarding certain of the legal proceedings in which we are involved, see Financial Note 18, "Other Commitments and Contingent Liabilities," to the accompanying consolidated financial statements.

Changes in the United States healthcare environment could have a material negative impact on our revenues and net income.

Our products and services are primarily intended to function within the structure of the healthcare financing and reimbursement system currently being used in the United States. In recent years, the healthcare industry has changed significantly in an effort to reduce costs. These changes include increased use of managed care, cuts in Medicare and Medicaid reimbursement levels, consolidation of pharmaceutical and medical-surgical supply distributors and the development of large, sophisticated purchasing groups.

We expect the healthcare industry to continue to change significantly in the future. Some of these changes, such as adverse changes in government funding of healthcare services, legislation or regulations governing the privacy of patient information or the delivery or pricing of pharmaceuticals and healthcare services or mandated benefits, may cause healthcare industry participants to greatly reduce the amount of our products and services they purchase or the price they are willing to pay for our products and services.

Changes in the healthcare industry's or our pharmaceutical suppliers' pricing, selling, inventory, distribution or supply policies or practices, or changes in our customer mix could also significantly reduce our revenues and net income. Due to the diverse range of healthcare supply management and healthcare information technology products and services that we offer, such changes could have an adverse impact on our results of operations, while not affecting some of our competitors who offer a narrower range of products and services.

The majority of our U.S. pharmaceutical distribution business' agreements with manufacturers are structured to ensure that we are appropriately and predictably compensated for the services we provide; however, failure to successfully renew these contracts in a timely and favorable manner could have an adverse impact on our results of operations.

Healthcare and public policy trends indicate that the number of generic drugs will increase over the next few years as a result of the expiration of certain drug patents. In recent years, our financial results have improved from our generic drug offering programs. An increase or a decrease in the availability or changes in pricing or reimbursement of these generic drugs could have an adverse impact on our results of operations.

"At-Risk" Launches: Generic drug manufacturers are increasingly challenging the validity or enforceability of patents on branded pharmaceutical products. During the pendency of these legal challenges, a generics manufacturer may begin manufacturing and selling a generic version of the branded product prior to the final resolution to its legal challenge over the branded product's patent. To the extent we source and distribute such generic products launched "at risk," the brand-name company could assert infringement claims against us. While we generally obtain indemnification against such claims from generic manufacturers as a condition of distributing their products, there can be no assurances that these rights will be adequate or sufficient to protect us.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

International Sourcing: We may experience difficulties and delays inherent in sourcing products and contract manufacturing from foreign countries, including, but not limited to, (1) difficulties in complying with the requirements of applicable federal, state and local governmental authorities in the United States and of foreign regulatory authorities, (2) inability to increase production capacity commensurate with demand or the failure to predict market demand and (3) other manufacturing or distribution problems including changes in types of products produced, limits to manufacturing capacity due to regulatory requirements or physical limitations that could impact continuous supply. Manufacturing difficulties could result in manufacturing shutdowns, product shortages and delays in product manufacturing.

Pedigree Tracking: There have been increasing efforts by various levels of government agencies, including state boards of pharmacy and comparable government agencies, to regulate the pharmaceutical distribution system in order to prevent the introduction of counterfeit, adulterated and/or mislabeled drugs into the pharmaceutical distribution system (“pedigree tracking”). Certain states have adopted or are considering laws and regulations that are intended to protect the integrity of the pharmaceutical distribution system while other government agencies are currently evaluating their recommendations. Florida has adopted pedigree tracking requirements and California has enacted a law requiring chain of custody technology using radio frequency tagging and electronic pedigrees, which will be effective for us in July 2016. Final regulations under the federal Prescription Drug Marketing Act requiring pedigree and chain of custody tracking in certain circumstances became effective December 1, 2006. This latter regulation has been challenged in a case brought by secondary distributors. A preliminary injunction was issued by the United States District Court for the Eastern District of New York that temporarily enjoined implementation of this regulation. This injunction was affirmed by the Court of Appeals for the Second Circuit in July 2008. These pedigree tracking laws and regulations could increase the overall regulatory burden and costs associated with our pharmaceutical distribution business and could have an adverse impact on our results of operations. In addition, the U.S. Federal Drug Administration (“FDA”) Amendments Act of 2007, which went into effect on October 1, 2007, requires the FDA to establish standards and identify and validate effective technologies for the purpose of securing the pharmaceutical supply chain against counterfeit drugs. These standards may include any track-and-trace or authentication technologies, such as Radio Frequency Identification Devices and other technologies. The FDA must develop a standardized numerical identifier by April 1, 2010.

Healthcare Fraud: We are subject to extensive and frequently changing local, state and federal laws and regulations relating to healthcare fraud. The federal government continues to strengthen its position and scrutiny over practices involving healthcare fraud affecting Medicare, Medicaid and other government healthcare programs. Furthermore, our relationships with pharmaceutical and medical-surgical product manufacturers and healthcare providers subject our business to laws and regulations on fraud and abuse, which among other things (1) prohibit persons from soliciting, offering, receiving or paying any remuneration in order to induce the referral of a patient for treatment or for inducing the ordering or purchasing of items or services that are in any way paid for by Medicare, Medicaid or other government-sponsored healthcare programs, (2) impose a number of restrictions upon referring physicians and providers of designated health services under Medicare and Medicaid programs and (3) prohibit the knowing submission of a false or fraudulent claim for payment to a federal health care program (e.g., Medicare and Medicaid). Legislative provisions relating to healthcare fraud and abuse give federal enforcement personnel substantially increased funding, powers and remedies to pursue suspected fraud and abuse. Many of the regulations applicable to us, including those relating to marketing incentives, are vague or indefinite and have not been interpreted by the courts. They may be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that could require us to make changes in our operations. If we fail to comply with applicable laws and regulations, we could suffer civil and criminal penalties, including the loss of licenses or our ability to participate in Medicare, Medicaid and other federal and state healthcare programs.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Claims Transmissions: Medical billing and collection activities are governed by numerous federal and state civil and criminal laws that pertain to companies that provide billing and collection services or that provide consulting services in connection with billing and collection activities. In connection with these laws, we may be subjected to federal or state government investigations and possible penalties may be imposed upon us, false claims actions may have to be defended, private payors may file claims against us and we may be excluded from Medicare, Medicaid or other government-funded healthcare programs. Any such proceeding or investigation could have an adverse impact on our results of operations.

E-Prescribing: The use of our solutions by physicians for electronic prescribing, electronic routing of prescriptions to pharmacies and dispensing is governed by federal and state law. States have differing prescription format requirements, which we have programmed into our software. In addition, in November 2005, the U.S. Department of Health and Human Services (the “HHS”) announced regulations by the Centers for Medicare and Medicaid Services (“CMS”) related to “E-Prescribing and the Prescription Drug Program” (“E-Prescribing Regulations”). These E-Prescribing Regulations were mandated by the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The E-Prescribing Regulations set forth standards for the transmission of electronic prescriptions. These standards are detailed and significant and cover not only transactions between prescribers and dispensers for prescriptions but also electronic eligibility, benefits inquiries, drug formulary and benefit coverage information. Our efforts to provide solutions that enable our clients to comply with these regulations could be time consuming and expensive.

Reimbursements: Both our own profit margins and the profit margins of our customers may be adversely affected by laws and regulations reducing reimbursement rates for pharmaceuticals and/or medical treatments or services or changing the methodology by which reimbursement levels are determined. For example, the Deficit Reduction Act of 2005 (“DRA”) was intended to reduce net Medicare and Medicaid spending by approximately \$11 billion over five years. Effective January 1, 2007, the DRA changed the federal upper payment limit for Medicaid reimbursement from 150% of the lowest published price for generic pharmaceuticals (which is usually the average wholesale price) to 250% of the lowest average manufacturer price (“AMP”). On July 17, 2007, CMS published a final rule implementing these provisions and clarifying, among other things, the AMP calculation methodology and the DRA provision requiring manufacturers to publicly report AMP for branded and generic pharmaceuticals. On December 19, 2007, the United States District Court for the District of Columbia issued a preliminary injunction prohibiting use of the AMP calculation in connection with Medicaid reimbursement pending resolution of a lawsuit claiming that CMS had acted unlawfully in adopting the rule. On July 15, 2008, the U.S. Congress enacted the Medicaid Improvements for Patients and Providers Acts of 2008 (“MIPPA,”) which delays the adoption of CMS’s final rule and prevents CMS from publishing AMP data until October 1, 2009. We expect that the use of an AMP benchmark would result in a reduction in the Medicaid reimbursement rates to our customers for certain generic pharmaceuticals, which could indirectly impact the prices that we can charge our customers for generic pharmaceuticals and cause corresponding declines in our profitability. There can be no assurance that the changes under the DRA would not have an adverse impact on our business.

Interoperability Standards: There is increasing demand among customers, industry groups and government authorities that healthcare software and systems provided by various vendors be compatible with each other. This need for interoperability is leading to the development of standards by various groups. The Certification Commission for Healthcare Information Technology (“CCHIT”) has developed a set of criteria defining levels of interoperability, functionality and security for the industry, which are still being modified and refined. Various federal, state and foreign government agencies are also developing standards that could become mandatory for systems purchased by these agencies. For example, the recently enacted American Recovery and Reinvestment Act of 2009 requires meaningful use of “certified” healthcare information technology products by healthcare providers in order to receive stimulus funds from the federal government, but the certification standards have not yet been established. We may incur increased development costs and delays in delivering solutions if we need to upgrade our software and systems to be in compliance with these varying and evolving standards. In addition, delays in promulgating these standards may result in postponement or cancellation of our customers’ decisions to purchase our products.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Healthcare Industry Consolidation: In recent years, the pharmaceutical suppliers have been subject to increasing consolidation. As a result, a small number of very large companies control a significant share of the market. Accordingly, we depend on fewer suppliers for our products and we are less able to negotiate price terms with the suppliers. Many healthcare organizations have consolidated to create larger healthcare enterprises with greater market power. If this consolidation trend continues, it could reduce the size of our target market and give the resulting enterprises greater bargaining power, which may lead to erosion of the prices for our products and services. In addition, when healthcare organizations combine they often consolidate infrastructure including IT systems and acquisition of our clients could erode our revenue base.

Healthcare Reform Legislation: In addition to many of the targeted environmental and policy issues outlined above, the national debate on whether and how to expand coverage to the uninsured, to improve the quality of care and to reduce health costs and healthcare inflation will, if enacted in whole or in part, impose major changes to the marketplace, some of which may impact either our results of operations or the manner in which we operate our business.

Competition may erode our profit.

In every area of healthcare distribution operations, our Distribution Solutions segment faces strong competition, both in price and service, from national, regional and local full-line, short-line and specialty wholesalers, service merchandisers, self-warehousing chains, manufacturers engaged in direct distribution and large payor organizations. In addition, this segment faces competition from various other service providers and from pharmaceutical and other healthcare manufacturers (as well as other potential customers of the segment) which may from time to time decide to develop, for their own internal needs, supply management capabilities which would otherwise be provided by the segment. Price, quality of service, and in some cases, convenience to the customer are generally the principal competitive elements in this segment.

Our Technology Solutions segment experiences substantial competition from many firms, including other computer services firms, consulting firms, shared service vendors, certain hospitals and hospital groups, hardware vendors and Internet-based companies with technology applicable to the healthcare industry. Competition varies in size from small to large companies, in geographical coverage and in scope and breadth of products and services offered. These competitive pressures could have an adverse impact on our results of operations.

Our Distribution Solutions segment is subject to inflation in branded pharmaceutical prices and deflation in generic pharmaceutical prices, which subjects us to risks and uncertainties.

Certain of our U.S. pharmaceutical distribution business' agreements entered into with branded pharmaceutical manufacturers are partially inflation-based. A slowing in the frequency or rate of branded price increases could have an adverse impact on our results of operations. In addition, we also distribute generic pharmaceuticals, which are subject to price deflation. An acceleration of the frequency or size of generic price decreases could also have an adverse impact on our results of operations.

Substantial defaults in payment, a material reduction in purchases or the loss of a large customer could have an adverse impact on our financial condition, results of operations and liquidity.

In recent years, a significant portion of our revenue growth has been with a limited number of large customers. During the year ended March 31, 2009, sales to our ten largest customers accounted for approximately 52% of our total consolidated revenues. Sales to our two largest customers, Caremark and Rite Aid, represented approximately 14% and 12% of our 2009 total consolidated revenues. At March 31, 2009, accounts receivable from our ten largest customers were approximately 49% of total accounts receivable. Accounts receivable from Caremark and Rite Aid were approximately 14% and 10% of total accounts receivable. We also have agreements with group purchasing organizations, each of which functions as a purchasing agent on behalf of member hospitals, pharmacies and other healthcare providers. As a result, our sales and credit concentration is significant. A default in payment, a material reduction in purchases or the loss of a large customer could have an adverse impact on our financial condition, results of operations and liquidity.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

We generally sell product to our customers on credit that is short-term in nature and unsecured. Any adverse change in general economic conditions can adversely reduce sales to our customers, affect consumer buying practices or cause our customers to delay or be unable to pay accounts receivable owed to us, which would reduce our revenue growth and cause a decrease in our profitability and cash flow. Further, interest rate fluctuations and changes in capital market conditions may affect our customers' ability to obtain credit to finance their business under acceptable terms, which would reduce our revenue growth and cause a decrease in our profitability.

Our Distribution Solutions segment is dependent upon sophisticated information systems. The implementation delay, malfunction or failure of these systems for any extended period of time could adversely affect our business.

We rely on sophisticated information systems in our business to obtain, rapidly process, analyze and manage data to, (1) facilitate the purchase and distribution of thousands of inventory items from numerous distribution centers, (2) receive, process and ship orders on a timely basis, (3) manage the accurate billing and collections for thousands of customers and (4) process payments to suppliers. If these systems are interrupted, damaged by unforeseen events or fail for any extended period of time, we could have an adverse impact on our results of operations.

Reduced capacity in the commercial property insurance market exposes us to potential loss.

In order to provide prompt and complete service to our major Distribution Solutions segment's customers, we maintain significant product inventory at certain of our distribution centers. While we seek to maintain property insurance coverage in amounts sufficient for our business, there can be no assurance that our property insurance will be adequate or available on acceptable terms. One or more large casualty losses caused by fire, earthquake or other natural disaster in excess of our coverage limits could have an adverse impact on our results of operations.

We could become subject to liability claims that are not adequately covered by our insurance and may have to pay damages and other expenses which could have an adverse impact on our results of operations.

Our business exposes us to risks that are inherent in the distribution, manufacturing, dispensing of pharmaceuticals and medical-surgical supplies, the provision of ancillary services, the conduct of our payor businesses (which include disease management programs and our nurse triage services) and the provision of products that assist clinical decision-making and relate to patient medical histories and treatment plans. If customers assert liability claims against our products and/or services, any ensuing litigation, regardless of outcome, could result in a substantial cost to us, divert management's attention from operations and decrease market acceptance of our products. We attempt to limit by contract our liability to customers; however, the limitations of liability set forth in the contracts may not be enforceable or may not otherwise protect us from liability for damages. We also maintain general liability coverage; however, this coverage may not continue to be available on acceptable terms or may not be available in sufficient amounts to cover one or more large claims against us. In addition, the insurer might disclaim coverage as to any future claim. A successful product or professional liability claim not fully covered by our insurance could have an adverse impact on our results of operations.

The failure of our healthcare technology businesses to attract and retain customers due to challenges in software product integration or to keep pace with technological advances may significantly reduce our revenues or increase our expenses.

Our healthcare technology businesses, the bulk of which resides in our Technology Solutions segment, deliver enterprise-wide clinical, patient care, financial, supply chain, strategic management software solutions and pharmacy automation to hospitals, physicians, homecare providers, retail and mail order pharmacies and payors. Challenges in integrating software products could impair our ability to attract and retain customers and could have an adverse impact on our consolidated results of operations and a disproportionate impact on the results of operations of our Technology Solutions segment.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Future advances in the healthcare information systems industry could lead to new technologies, products or services that are competitive with the technology products and services offered by our various businesses. Such technological advances could also lower the cost of such products and services or otherwise result in competitive pricing pressure or render our products obsolete. The success of our technology businesses will depend, in part, on our ability to be responsive to technological developments, legislative initiatives, pricing pressures and changing business models. To remain competitive in the evolving healthcare information systems marketplace, our technology businesses must also develop new products on a timely basis. The failure to develop competitive products and to introduce new products on a timely basis could curtail the ability of our technology businesses to attract and retain customers and thereby could have an adverse impact on our results of operations.

The loss of third party licenses utilized by our technology businesses may adversely impact our operating results.

We license the rights to use certain technologies from third-party vendors to incorporate in or complement our various healthcare technology products and solutions, which are primarily offered through our Technology Solutions segment. These licenses are generally nonexclusive, must be renewed periodically by mutual consent and may be terminated if we breach the terms of the license. As a result, we may have to discontinue, delay or reduce product shipments until we obtain equivalent technology, which could hurt our business. Our competitors may obtain the right to use any of the technology covered by these licenses and use the technology to compete directly with us. In addition, if our vendors choose to discontinue support of the licensed technology in the future, we may not be able to modify or adapt our own products.

Proprietary technology protections may not be adequate and products may be found to infringe the rights of third parties.

We rely on a combination of trade secret, patent, copyright and trademark laws, nondisclosure and other contractual provisions and technical measures to protect our proprietary rights in our products and solutions. There can be no assurance that these protections will be adequate or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology. Although we believe that our products do not infringe the proprietary rights of third parties, from time to time third parties have asserted infringement claims against us and there can be no assurance that third parties will not assert infringement claims against us in the future. If we were found to be infringing others' rights, we may be required to pay substantial damage awards and forced to develop non-infringing technology, obtain a license or cease selling the products that contain the infringing technology. Additionally, we may find it necessary to initiate litigation to protect our trade secrets, to enforce our patent, copyright and trademark rights and to determine the scope and validity of the proprietary rights of others. These types of litigation can be costly and time consuming. These litigation expenses, damage payments or costs of developing replacement technology could have an adverse impact on our results of operations.

System errors or failures of our products to conform to specifications could cause unforeseen liabilities.

The software and software systems ("systems") that we sell or operate are very complex. As with complex systems offered by others, our systems may contain errors, especially when first introduced. For example, our Technology Solutions segment's business systems are intended to provide information for healthcare providers in providing patient care. Therefore, users of our systems have a greater sensitivity to errors than the general market for software products. Failure of a client's system to perform in accordance with our documentation could constitute a breach of warranty and could require us to incur additional expense in order to make the system comply with the documentation. If such failure is not remedied in a timely manner, it could constitute a material breach under a contract, allowing the client to cancel the contract, obtain refunds of amounts previously paid or assert claims for significant damages.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Various risks could interrupt customers' access to their data residing in our service center, exposing us to significant costs.

We provide remote hosting services that involve operating both our software and the software of third-party vendors for our customers. The ability to access the systems and the data that we host and support on demand is critical to our customers. Our operations and facilities are vulnerable to interruption and/or damage from a number of sources, many of which are beyond our control, including, without limitation, (1) power loss and telecommunications failures, (2) fire, flood, hurricane and other natural disasters, (3) software and hardware errors, failures or crashes and (4) computer viruses, hacking and similar disruptive problems. We attempt to mitigate these risks through various means including disaster recovery plans, separate test systems and change control and system security measures, but our precautions may not protect against all problems. If customers' access is interrupted because of problems in the operation of our facilities, we could be exposed to significant claims, particularly if the access interruption is associated with problems in the timely delivery of medical care. We must maintain disaster recovery and business continuity plans that rely upon third-party providers of related services and if those vendors fail us at a time that our center is not operating correctly, we could incur a loss of revenue and liability for failure to fulfill our contractual service commitments. Any significant instances of system downtime could negatively affect our reputation and ability to sell our remote hosting services.

Regulation of our distribution businesses and regulation of our computer-related products could impose increased costs, delay the introduction of new products and negatively impact our business.

The healthcare industry is highly regulated. We are subject to various local, state, federal, foreign and transnational laws and regulations, which include the operating and security standards of the Drug Enforcement Administration (the "DEA"), the FDA, various state boards of pharmacy, state health departments, the HHS, CMS and other comparable agencies. Certain of our subsidiaries may be required to register for permits and/or licenses with, and comply with operating and security standards of the DEA, the FDA, HHS, various state boards of pharmacy, state health departments and/or comparable state agencies as well as foreign agencies and certain accrediting bodies depending upon the type of operations and location of product distribution, manufacturing and sale.

In addition, the FDA has increasingly focused on the regulation of computer products and computer-assisted products as medical devices under the federal Food, Drug and Cosmetic Act. If the FDA chooses to regulate any of our products as medical devices, it can impose extensive requirements upon us. If we fail to comply with the applicable requirements, the FDA could respond by imposing fines, injunctions or civil penalties, requiring recalls or product corrections, suspending production, refusing to grant pre-market clearance of products, withdrawing clearances and initiating criminal prosecution. Any final FDA policy governing computer products, once issued, may increase the cost and time to market new or existing products or may prevent us from marketing our products.

We regularly receive requests for information and occasionally subpoenas from government authorities. Although we believe that we are in compliance, in all material respects, with applicable laws and regulations, there can be no assurance that a regulatory agency or tribunal would not reach a different conclusion concerning the compliance of our operations with applicable laws and regulations. In addition, there can be no assurance that we will be able to maintain or renew existing permits, licenses or any other regulatory approvals or obtain without significant delay future permits, licenses or other approvals needed for the operation of our businesses. Any noncompliance by us with applicable laws and regulations or the failure to maintain, renew or obtain necessary permits and licenses could have an adverse impact on our results of operations.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Regulations relating to confidentiality of sensitive personal information and to format and data content standards could depress the demand for our products and impose significant product redesign costs and unforeseen liabilities on us.

State and federal laws regulate the confidentiality of patient records and the circumstances under which those records may be released. These regulations govern the disclosure and use of confidential patient medical record information and require the users of such information to implement specified security measures. Regulations currently in place governing electronic health data transmissions continue to evolve and are often unclear and difficult to apply. Although our systems have been updated and modified to comply with the current requirements of state laws and the Federal Health Insurance Portability and Accountability Act of 1996, evolving laws and regulations in this area could restrict the ability of our customers to obtain, use or disseminate patient information or could require us to incur significant additional costs to re-design our products in a timely manner, either of which could have an adverse impact on our business. Furthermore, failure to maintain confidentiality of sensitive personal information in accordance with the applicable regulatory requirements could expose us to breach of contract claims, fines and penalties.

The length of our sales and implementation cycles for our Technology Solutions segment could have an adverse impact on our future operating results.

Many of the solutions offered by our Technology Solutions segment have long sales and implementation cycles, which could range from a few months to two years or more from initial contact with the customer to completion of implementation. How and when to implement, replace, or expand an information system, or modify or add business processes, are major decisions for healthcare organizations. Many of the solutions we provide typically require significant capital expenditures and time commitments by the customer. Recent legislation that provides incentives to purchase health information systems imposes strict conditions on these incentives, including the requirement that purchased systems must comply with applicable federally-endorsed standards. To the extent these standards are narrowly construed or delayed in publication, our customers may delay or cancel their purchase decisions. Any decision by our customers to delay or cancel implementation could have an adverse impact on our results of operations. Furthermore, delays or failures to meet milestones established in our agreements may result in a breach of contract, termination of the agreement, damages and/or penalties as well as a reduction in our margins or a delay in our ability to recognize revenue.

We may be required to record a significant charge to earnings if our goodwill or intangible assets become impaired.

We are required under GAAP to test our goodwill for impairment, annually or more frequently if indicators for potential impairment exist. Indicators that are considered include, but are not limited to, significant changes in performance relative to expected operating results, significant changes in the use of the assets, significant negative industry or economic trends or a significant decline in the Company's stock price and/or market capitalization for a sustained period of time. In addition, we periodically review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Factors that may be considered a change in circumstances indicating that the carrying value of our intangible assets may not be recoverable include slower growth rates and the loss of a significant customer. We may be required to record a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill or intangible assets is determined. This could have an adverse impact on our results of operations. There are inherent uncertainties in management's estimates, judgments and assumptions used in assessing recoverability of goodwill and intangible assets. Any changes in key assumptions, including failure to meet business plans, a further deterioration in the market or other unanticipated events and circumstances, may affect the accuracy or validity of such estimates and could potentially result in an impairment charge.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)****Our operating results and our financial condition may be adversely affected by foreign operations.**

We have operations based in foreign countries, including Canada, the United Kingdom, other European countries, Asia Pacific and Israel and we have a large investment in Mexico. In the future, we look to continue to grow our foreign operations both organically and through acquisitions and investments; however, increasing our foreign operations carries additional risks. Operations outside of the United States may be affected by changes in trade protection laws, policies, measures and other regulatory requirements affecting trade and investment; unexpected changes in regulatory requirements for software, social, political, labor or economic conditions in a specific country or region; import/export regulations in both the United States and foreign countries and difficulties in staffing and managing foreign operations. Political changes and natural disasters, some of which may be disruptive, can interfere with our supply chain, our customers and all of our activities in a particular location. Additionally, foreign operations expose us to foreign currency fluctuations that could adversely impact our results of operations based on the movements of the applicable foreign currency exchange rates in relation to the U.S. dollar.

Tax legislation initiatives or challenges to our tax positions could adversely affect our net earnings.

We are a large multinational corporation with operations in the United States and international jurisdictions. As such, we are subject to the tax laws and regulations of the United States federal, state and local governments and of many international jurisdictions. From time to time, various legislative initiatives may be proposed that could adversely affect our tax positions. There can be no assurance that our effective tax rate will not be adversely affected by these initiatives. In addition, United States federal, state and local, as well as international, tax laws and regulations are extremely complex and subject to varying interpretations. Although we believe that our historical tax positions are sound and consistent with applicable laws, regulations and existing precedent, there can be no assurance that these tax positions will not be challenged by relevant tax authorities or that we would be successful in any such challenge.

Our business could be hindered if we are unable to complete and integrate acquisitions successfully.

An element of our strategy is to identify, pursue and consummate acquisitions that either expand or complement our business. Integration of acquisitions involves a number of risks including the diversion of management's attention to the assimilation of the operations of businesses we have acquired, difficulties in the integration of operations and systems, the realization of potential operating synergies, the assimilation and retention of the personnel of the acquired companies, challenges in retaining the customers of the combined businesses and potential adverse effects on operating results. In addition, we may potentially require additional financing in order to fund future acquisitions, which may or may not be attainable. If we are unable to successfully complete and integrate strategic acquisitions in a timely manner, our business and our growth strategies could be negatively affected.

Continued volatility and disruption to the global capital and credit markets may adversely affect our ability to access credit, our cost of credit and the financial soundness of our customers and suppliers.

Recent volatility and disruption in the global capital and credit markets, including the bankruptcy or restructuring of certain financial institutions, reduced lending activity by other financial institutions, decreased liquidity and increased costs in the commercial paper market and the reduced market for securitizations, may adversely affect the availability and cost of credit already arranged and the availability, terms and cost of credit in the future, including any arrangements to renew or replace our current credit or financing arrangements. Although we believe that our operating cash flow, financial assets, current access to capital and credit markets, including our existing credit and sales facilities, will give us the ability to meet our financing needs for the foreseeable future, there can be no assurance that continued or increased volatility and disruption in the global capital and credit markets will not impair our liquidity or increase our costs of borrowing.

McKESSON CORPORATION

FINANCIAL REVIEW (Concluded)

Our \$1.0 billion accounts receivable sales facility is generally renewed annually and will expire in June 2009. We used this facility in 2009 to fund working capital requirements, as needed. We will seek to renew this facility before it expires, although the fees associated with it may be higher than those currently charged due to the condition of the credit markets. Although we believe we will be able to renew this facility, there is no assurance that we will be able to do so.

Our business could also be negatively impacted if our customers or suppliers experience disruptions resulting from tighter capital and credit markets or a slowdown in the general economy. As a result, customers may modify, delay or cancel plans to purchase or implement our products or services and suppliers may increase their prices, reduce their output or change their terms of sale. Additionally, if customers' or suppliers' operating and financial performance deteriorates or if they are unable to make scheduled payments or obtain credit, customers may not be able to pay, or may delay payment of accounts receivable owed to us and suppliers may restrict credit, impose different payment terms or be unable to make payments due to us for fees, returned products or incentives. Any inability of customers to pay us for our products and services or any demands by suppliers for different payment terms, may adversely affect the Company's earnings and cash flow.

Changes in accounting standards issued by the Financial Accounting Standards Board ("FASB") or other standard-setting bodies may adversely affect our financial statements.

Our financial statements are subject to the application of GAAP, which are periodically revised and/or expanded. Accordingly, from time to time we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the FASB and the SEC. It is possible that future accounting standards we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse impact on our results of operations and financial condition.

McKESSON CORPORATION

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of McKesson Corporation is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). With the participation of the Chief Executive Officer and the Chief Financial Officer, our management conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework and criteria established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management has concluded that our internal control over financial reporting was effective as of March 31, 2009.

Deloitte & Touche LLP, an independent registered public accounting firm, audited the financial statements included in this Annual Report on Form 10-K and has also audited the effectiveness of the Company's internal control over financial reporting as of March 31, 2009. This audit report appears on page 63 of this Annual Report on Form 10-K.

May 5, 2009

/s/ John H. Hammergren

John H. Hammergren

Chairman, President and Chief Executive Officer
(Principal Executive Officer)

/s/ Jeffrey C. Campbell

Jeffrey C. Campbell

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

McKESSON CORPORATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Stockholders and Board of Directors of McKesson Corporation:

We have audited the accompanying consolidated balance sheets of McKesson Corporation and subsidiaries (the “Company”) as of March 31, 2009 and 2008, and the related consolidated statements of operations, stockholders’ equity and cash flows for each of the three fiscal years in the period ended March 31, 2009. Our audit also included the supplementary consolidated financial statement schedule (“financial statement schedule”) listed in the Index at Item 15(a). We also have audited the Company’s internal control over financial reporting as of March 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management’s Annual Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on these financial statements and financial statement schedule, and an opinion on the Company’s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of McKesson Corporation and subsidiaries as of March 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three fiscal years in the period ended March 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2009, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes- an interpretation of FASB Statement No. 109*, on April 1, 2007 and Statement of Financial Accounting Standards (“SFAS”) No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans*, on March 31, 2007.

/s/ Deloitte & Touche LLP
San Francisco, California
May 5, 2009

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share amounts)

	Years Ended March 31,		
	2009	2008	2007
Revenues	\$ 106,632	\$ 101,703	\$ 92,977
Cost of Sales	101,254	96,694	88,645
Gross Profit	5,378	5,009	4,332
Operating Expenses			
Selling	743	744	673
Distribution	943	886	771
Research and development	364	347	284
Administrative	1,639	1,559	1,346
Litigation charge (credits), net	493	(5)	(6)
Total Operating Expenses	4,182	3,531	3,068
Operating Income	1,196	1,478	1,264
Other Income, Net	12	121	132
Interest Expense	(144)	(142)	(99)
Income from Continuing Operations Before Income Taxes	1,064	1,457	1,297
Income Tax Expense	(241)	(468)	(329)
Income from Continuing Operations	823	989	968
Discontinued operations, net	-	1	(5)
Discontinued operations – loss on sales, net	-	-	(50)
Net Income	\$ 823	\$ 990	\$ 913
Earnings Per Common Share			
Diluted			
Continuing operations	\$ 2.95	\$ 3.32	\$ 3.17
Discontinued operations, net	-	-	(0.02)
Discontinued operations – loss on sales, net	-	-	(0.16)
Total	\$ 2.95	\$ 3.32	\$ 2.99
Basic			
Continuing operations	\$ 2.99	\$ 3.40	\$ 3.25
Discontinued operations, net	-	-	(0.02)
Discontinued operations – loss on sales, net	-	-	(0.17)
Total	\$ 2.99	\$ 3.40	\$ 3.06
Weighted Average Shares			
Diluted	279	298	305
Basic	275	291	298

See Financial Notes

McKESSON CORPORATION

CONSOLIDATED BALANCE SHEETS
(In millions, except per share amounts)

	March 31,	
	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,109	\$ 1,362
Receivables, net	7,774	7,213
Inventories, net	8,527	9,000
Prepaid expenses and other	261	211
Total	<u>18,671</u>	<u>17,786</u>
Property, Plant and Equipment, Net	796	775
Capitalized Software Held for Sale, Net	221	199
Goodwill	3,528	3,345
Intangible Assets, Net	661	661
Other Assets	1,390	1,837
Total Assets	<u>\$ 25,267</u>	<u>\$ 24,603</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Drafts and accounts payable	\$ 11,739	\$ 12,032
Deferred revenue	1,145	1,210
Current portion of long-term debt	219	2
Other accrued liabilities	2,503	2,104
Total	<u>15,606</u>	<u>15,348</u>
Long-Term Debt	2,290	1,795
Other Noncurrent Liabilities	1,178	1,339
Other Commitments and Contingent Liabilities (Note 18)		
Stockholders' Equity		
Preferred stock, \$0.01 par value, 100 shares authorized, no shares issued or outstanding	-	-
Common stock, \$0.01 par value		
Shares authorized: 2009 and 2008 – 800		
Shares issued: 2009 – 351, 2008 – 351	4	4
Additional Paid-in Capital	4,417	4,252
Retained Earnings	6,103	5,586
Accumulated Other Comprehensive Income (Loss)	(179)	152
Other	(8)	(13)
Treasury Shares, at Cost, 2009 – 80 and 2008 – 74	<u>(4,144)</u>	<u>(3,860)</u>
Total Stockholders' Equity	<u>6,193</u>	<u>6,121</u>
Total Liabilities and Stockholders' Equity	<u>\$ 25,267</u>	<u>\$ 24,603</u>

See Financial Notes

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended March 31, 2009, 2008 and 2007
(In millions except per share amounts)

	Common Stock		Additional Paid-in Capital	Other Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	ESOP Notes and Guarantees	Treasury		Stockholders' Equity	Other Comprehensive Income								
	Shares	Amount	Capital	Capital	Earnings	Income (Loss)	Guarantees	Common Shares	Amount	Equity	Income								
Balances, March 31, 2006	330	\$	3	\$	3,238	\$	(75)	\$	3,871	\$	55	\$	(25)	(26)	\$	(1,160)	\$	5,907	
Issuance of shares under employee plans	11				399											(2)		397	
Share-based compensation					59													59	
Tax benefit related to issuance of shares under employee plans					68													68	
ESOP note collections								10										10	
Notes rescinded					16													16	
Translation adjustment							33											33	33
Net income						913												913	913
Repurchase of common stock										(20)	(1,000)	(1,000)							
Cash dividends declared, \$0.24 per common share						(72)												(72)	
Adjustment to initially apply FASB Statement No. 158, net of tax of \$37							(63)											(63)	
Other					(42)	40	6	1				5							6
Balances, March 31, 2007	341	\$	3	\$	3,722	\$	(19)	\$	4,712	\$	31	\$	(14)	(46)	\$	(2,162)	\$	6,273	\$ 952
Issuance of shares under employee plans	10		1		354											(12)		343	
Share-based compensation					91													91	
Tax benefit related to issuance of shares under employee plans					85													85	
ESOP note collections								11										11	
Translation adjustment							95											95	95
Unrealized net gain/loss and other components of benefit plans, net of tax of \$(13)							26											26	26
Net income						990												990	990
Repurchase of common stock										(28)	(1,686)	(1,686)							
Cash dividends declared, \$0.24 per common share						(70)												(70)	
Adoption of FIN No. 48						(46)												(46)	
Other					9							9							
Balances, March 31, 2008	351	\$	4	\$	4,252	\$	(10)	\$	5,586	\$	152	\$	(3)	(74)	\$	(3,860)	\$	6,121	\$ 1,111
Issuance of shares under employee plans	4				97											(19)		78	
ESOP funding																15		15	
Share-based compensation					99													99	
Tax benefit related to issuance of shares under employee plans					8													8	
ESOP note collections								2										2	
Translation adjustment							(273)											(273)	(273)
Unrealized net gain/loss and other components of benefit plans, net of tax of \$33							(57)											(57)	(57)
Net income						823												823	823
Repurchase and retirement of common stock	(4)			(39)		(165)				(6)	(280)	(484)							
Cash dividends declared, \$0.48, per common share						(134)												(134)	
Other					3	(7)	(1)					(5)							
Balances, March 31, 2009	351	\$	4	\$	4,417	\$	(7)	\$	6,103	\$	(179)	\$	(1)	(80)	\$	(4,144)	\$	6,193	\$ 493

See Financial Notes

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Years Ended March 31,		
	2009	2008	2007
Operating Activities			
Net income	\$ 823	\$ 990	\$ 913
Discontinued operations, net of income taxes	-	(1)	55
Adjustments to reconcile to net cash provided by (used in) operating activities:			
Depreciation	133	124	112
Amortization	308	247	183
Provision for bad debts	29	41	24
Litigation charge (credits), net	493	(5)	(6)
Deferred taxes (benefits) on Litigation charge (credits), net	(172)	2	2
Impairment of investments	63	-	-
Other deferred taxes	320	196	165
Income tax reserve reversals	(87)	-	(83)
Share-based compensation expense	99	91	60
Excess tax benefit from share-based payment arrangements	(8)	(83)	(70)
Other non-cash items	(4)	(24)	(66)
Changes in operating assets and liabilities, net of business acquisitions:			
Receivables	(708)	(288)	(209)
Inventories	370	(676)	(928)
Drafts and accounts payable	(189)	762	872
Deferred revenue	(55)	98	181
Taxes	(47)	336	227
Consolidated Securities Litigation Action settlement payments	-	(962)	(25)
Other	(17)	21	132
Net cash provided by operating activities	1,351	869	1,539
Investing Activities			
Property acquisitions	(195)	(195)	(126)
Capitalized software expenditures	(197)	(161)	(180)
Acquisitions of businesses, less cash and cash equivalents acquired	(358)	(610)	(1,938)
Proceeds from sale of businesses	63	-	179
Restricted cash for Litigation charges	(55)	962	-
Other	15	(1)	(43)
Net cash used in investing activities	(727)	(5)	(2,108)
Financing Activities			
Proceeds from short-term borrowings	3,630	260	1,000
Repayments of short-term borrowings	(3,630)	(260)	(1,000)
Proceeds from issuances of long-term debt, net	699	-	997
Repayment of long-term debt	(4)	(162)	(31)
Capital stock transactions:			
Issuances	97	354	399
Share repurchases, including shares surrendered for tax withholding	(298)	(1,698)	(1,003)
Share repurchases, retirements	(204)	-	-
Excess tax benefits from share-based payment arrangements	8	83	70
Dividends paid	(116)	(70)	(72)
Other	(4)	23	19
Net cash provided by (used in) financing activities	178	(1,470)	379
Effect of exchange rate changes on cash and cash equivalents	(55)	14	5
Net increase (decrease) in cash and cash equivalents	747	(592)	(185)
Cash and cash equivalents at beginning of year	1,362	1,954	2,139
Cash and cash equivalents at end of year	\$ 2,109	\$ 1,362	\$ 1,954

See Financial Notes

McKESSON CORPORATION**FINANCIAL NOTES****1. Significant Accounting Policies**

McKesson Corporation (“McKesson,” the “Company,” or “we” and other similar pronouns) is a corporation providing supply, information and care management products and services designed to reduce costs and improve quality across the healthcare industry.

Basis of Presentation: The consolidated financial statements of McKesson include the financial statements of all wholly-owned subsidiaries, majority-owned or controlled companies and certain immaterial variable interest entities (“VIEs”) of which we are the primary beneficiary. Significant intercompany transactions and balances have been eliminated. The Company’s fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references to a particular year shall mean the Company’s fiscal year.

We conduct our business through two segments, Distribution Solutions and Technology Solutions as further described in Financial Note 22, “Segments of Business.”

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires that we make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual amounts could differ from those estimated amounts.

Cash and Cash Equivalents: All highly liquid debt instruments purchased with a maturity of three months or less at the date of acquisition are included in cash and cash equivalents. Included in cash and cash equivalents at March 31, 2009, are money market fund investments of \$1.7 billion which are reported at fair value. The fair value of these investments was determined by using quoted prices for identical investments in active markets which are considered to be Level 1 inputs under Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements.” The carrying value of all other cash equivalents approximates fair value due to their relatively short-term nature.

We maintain cash and cash equivalents with several financial institutions. Bank deposits may exceed the amount of federal deposit insurance. Cash equivalents may be invested in money market funds. We mitigate the risk of our short-term investment portfolio by investing the majority of funds in U.S. government securities, depositing funds with reputable financial institutions and monitoring risk profiles and investment strategies of money market funds.

Restricted Cash: Cash that is subject to legal restrictions or is unavailable for general operating purposes is classified as restricted cash and included within prepaid expenses and other in the consolidated balance sheets.

Marketable Securities Available for Sale: We carry our marketable securities which are available for sale at fair value and the net unrealized gains and losses, net of the related tax effect, computed in marking these securities to market have been reported within stockholders’ equity. At March 31, 2009 and 2008, marketable securities were not material.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Concentrations of Credit Risk and Receivables: Our trade receivables subject us to a concentration of credit risk with customers primarily in our Distribution Solutions segment. At March 31, 2009, revenues and accounts receivable from our ten largest customers accounted for approximately 52% of consolidated revenues and approximately 49% of accounts receivable. At March 31, 2009, revenues and accounts receivable from our two largest customers, CVS Caremark Corporation and Rite Aid Corporation, represented approximately 14% and 12% of total consolidated revenues and 14% and 10% of accounts receivable. Accordingly, any defaults in payment by or a reduction in purchases from our large customers could have a significant negative impact on our financial condition, results of operations and liquidity. In addition, trade receivables are subject to a concentration of credit risk with customers in the institutional, retail and healthcare provider sectors, which can be affected by a downturn in the economy and changes in reimbursement policies. This credit risk is mitigated by the size and diversity of the customer base as well as its geographic dispersion. We estimate the receivables for which we do not expect full collection based on historical collection rates and ongoing evaluations of the creditworthiness of our customers. An allowance is recorded in our consolidated financial statements for these amounts.

Inventories: We state inventories at the lower of cost or market ("LCM.") Inventories for our Distribution Solutions segment consist of merchandise held for resale. For our Distribution Solutions segment, the majority of the cost of domestic inventories is determined on the last-in, first-out ("LIFO") method and Canadian inventories are stated using the first-in, first-out ("FIFO") method. Technology Solutions segment inventories consist of computer hardware with cost determined by the standard cost method. Rebates, fees, cash discounts, allowances, chargebacks and other incentives received from vendors are generally accounted for as a reduction in the cost of inventory and are recognized when the inventory is sold. Total inventories were \$8.5 billion and \$9.0 billion at March 31, 2009 and 2008.

The LIFO method was used to value approximately 88% of our inventories at March 31, 2009 and 2008. At March 31, 2009 and 2008, our LIFO reserves, net of LCM adjustments (discussed below), were \$85 million and \$77 million. LIFO reserves include both pharmaceutical and non-pharmaceutical products. In 2009, 2008 and 2007, we recognized net LIFO expense of \$8 million and net LIFO credits of \$14 million and \$64 million within our consolidated statements of operations. A LIFO expense is recognized when the net effect of price increases on branded pharmaceuticals and non-pharmaceutical products held in inventory exceeds the impact of price declines and shifts towards generic pharmaceutical products, including the effect of branded pharmaceutical products that have lost market exclusivity. A LIFO credit is recognized when the impact of price declines and shifts towards generic pharmaceutical products exceeds the impact of price increases on branded pharmaceuticals and non-pharmaceutical products held in inventory.

We believe that the FIFO inventory costing method provides a reasonable estimation of the current cost of replacing inventory (i.e., "market"). As such, our LIFO inventory is valued at the lower of LIFO or inventory as valued under FIFO. Primarily due to continued deflation in generic pharmaceutical inventories, pharmaceutical inventories at LIFO were \$107 million and \$43 million higher than FIFO as of March 31, 2009 and 2008. As a result, in 2009 and 2008, we recorded LCM charges of \$64 million and \$43 million within our consolidated statements of operations to adjust our LIFO inventories to market.

Property, Plant and Equipment: We state our property, plant and equipment at cost and depreciate them under the straight-line method at rates designed to distribute the cost of properties over estimated service lives ranging from one to 30 years.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Capitalized Software Held for Sale: Development costs for software held for sale, which primarily pertain to our Technology Solutions segment, are capitalized once a project has reached the point of technological feasibility. Completed projects are amortized after reaching the point of general availability using the straight-line method based on an estimated useful life of approximately three years. We monitor the net realizable value of capitalized software held for sale to ensure that the investment will be recovered through future sales.

Additional information regarding our capitalized software expenditures is as follows:

(In millions)	Years Ended March 31,		
	2009	2008	2007
Amounts capitalized	\$ 74	\$ 73	\$ 76
Amortization expense	50	44	43
Third-party royalty fees paid	50	52	43

Goodwill: Goodwill is tested for impairment on an annual basis or more frequently if indicators for potential impairment exist. Impairment testing is conducted at the reporting unit level, which is generally defined as a component, one level below our Distribution Solutions and Technology Solutions operating segments, for which discrete financial information is available and segment management regularly reviews the operating results of that unit. Components that have essentially similar operations, products, services and customers are aggregated as a single reporting unit.

Impairment tests require that we first compare the carrying value of net assets to the estimated fair value of net assets for the reporting units. If the carrying value exceeds the fair value, a second step is performed to calculate the amount of impairment, which would be recorded as a charge in the consolidated statements of operations. The fair value of a reporting unit is based upon a number of considerations including projections of revenues, earnings and discounted cash flows and determination of market value multiples for similar businesses or guideline companies whose securities are actively traded in public markets. The discount rate used for cash flows reflects capital market conditions and the specific risks associated with the business. In addition, we compare the aggregate of the reporting units' fair value to the Company's market capitalization as a further corroboration of the fair value. The testing requires a complex series of assumptions and judgment by management in projecting future operating results, selecting guideline companies for comparisons and assessing risks. The use of alternative assumptions and estimates could affect the fair values and change the impairment determinations. Other than our goodwill impairment relating to the disposition of our Acute Care business (see Financial Note 7, "Discontinued Operations,") there have been no goodwill impairments during the years presented.

Intangible assets: Substantially all of our intangible assets are subject to amortization and are amortized over their estimated period of benefit, ranging from one to fifteen years. We evaluate the recoverability of intangible assets periodically and take into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists. No material impairments of intangible assets have been identified during any of the years presented.

Capitalized Software Held for Internal Use: We capitalize costs of software held for internal use during the application development stage of a project and amortize those costs over the assets' estimated useful lives ranging from one to ten years. As of March 31, 2009 and 2008, capitalized software held for internal use was \$475 million and \$458 million, net of accumulated amortization of \$567 million and \$467 million and was included in other assets in the consolidated balance sheets.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Insurance Programs: Under our insurance programs, we seek to obtain coverage for catastrophic exposures as well as those risks required to be insured by law or contract. It is our policy to retain a significant portion of certain losses primarily related to workers' compensation and comprehensive general, product and vehicle liability. Provisions for losses expected under these programs are recorded based upon our estimate of the aggregate liability for claims incurred as well as for claims incurred but not yet reported. Such estimates utilize certain actuarial assumptions followed in the insurance industry.

Revenue Recognition: Revenues for our Distribution Solutions segment are recognized when we deliver product and title passes to the customer or when services have been rendered and there are no further obligations to customers.

Revenues are recorded net of sales returns, allowances, rebates and other incentives. Our sales return policy generally allows customers to return products only if they can be resold for value or returned to suppliers for full credit. We accrue sales returns based on estimates at the time of sale to the customer. Sales returns from customers were approximately \$1,216 million, \$1,093 million and \$1,113 million in 2009, 2008 and 2007. Taxes collected from customers and remitted to governmental authorities are presented on a net basis; that is, they are excluded from revenues.

The revenues for our Distribution Solutions segment include large volume sales of pharmaceuticals to a limited number of large customers who warehouse their own product. We order bulk product from the manufacturer, receive and process the product through our central distribution facility and deliver the bulk product (generally in the same form as received from the manufacturer) directly to our customers' warehouses. Sales to customers' warehouses amounted to \$25.8 billion in 2009, \$27.7 billion in 2008 and \$27.6 billion in 2007. We also record revenues for direct store deliveries from most of these same customers. Direct store deliveries are shipments from the manufacturer to our customers of a limited category of products that require special handling. We assume the primary liability to the manufacturer for these products.

Based on the criteria of Emerging Issues Task Force ("EITF") Issue No. 99-19, "Reporting Revenue Gross as a Principal Versus Net as an Agent," our revenues are recorded gross when we are the primary party obligated in the transaction, take title to and possession of the inventory, are subject to inventory risk, have latitude in establishing prices, assume the risk of loss for collection from customers as well as delivery or return of the product, are responsible for fulfillment and other customer service requirements, or the transactions have several but not all of these indicators.

Revenues for our Technology Solutions segment are generated primarily by licensing software systems (consisting of software, hardware and maintenance support), and providing outsourcing and professional services. Revenue for this segment is recognized as follows:

Software systems are marketed under information systems agreements as well as service agreements. Perpetual software arrangements are recognized at the time of delivery or under the percentage-of-completion method based on the terms and conditions in the contract. Contracts accounted for under the percentage-of-completion method are generally measured based on the ratio of labor costs incurred to date to total estimated labor costs to be incurred. Changes in estimates to complete and revisions in overall profit estimates on these contracts are charged to earnings in the period in which they are determined. We accrue for contract losses if and when the current estimate of total contract costs exceeds total contract revenue.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Hardware revenues are generally recognized upon delivery. Revenue from multi-year software license agreements is recognized ratably over the term of the agreement. Software implementation fees are recognized as the work is performed or under the percentage-of-completion contract method. Maintenance and support agreements are marketed under annual or multi-year agreements and are recognized ratably over the period covered by the agreements. Remote processing service fees are recognized monthly as the service is performed. Outsourcing service revenues are recognized as the service is performed.

We also offer our products on an application service provider (“ASP”) basis, making available our software functionality on a remote hosting basis from our data centers. The data centers provide system and administrative support, as well as hosting services. Revenue on products sold on an ASP basis is recognized on a monthly basis over the term of the contract starting when the hosting services begin.

This segment also engages in multiple-element arrangements, which may contain any combination of software, hardware, implementation or consulting services, or maintenance services. When some elements are delivered prior to others in an arrangement and vendor-specific objective evidence of fair value (“VSOE”) exists for the undelivered elements, revenue for the delivered elements is recognized upon delivery of such items. The segment establishes VSOE for hardware and implementation and consulting services based on the price charged when sold separately, and for maintenance services, based on renewal rates offered to customers. Revenue for the software element is recognized under the residual method only when fair value has been established for all of the undelivered elements in an arrangement. If fair value cannot be established for any undelivered element, all of the arrangement’s revenue is deferred until the delivery of the last element or until the fair value of the undelivered element is determinable.

Our Technology Solutions segment also includes revenues from disease management programs provided to various states’ Medicaid programs. These service contracts include provisions for achieving certain cost-savings and clinical targets. If the targets are not met, a portion, or all, of the revenue must be refunded to the customer. We recognize revenue during the term of the contract by assessing our actual performance compared to targets and then determining the amount the customer would be legally obligated to pay if the contract terminated at that point. These assessments include estimates of medical claims and other data, which could require future adjustment because there is generally a significant time delay between recording the accrual and the final settlement of the contract. If data is insufficient to assess performance or we have not met the targets, we defer recognition of the revenue. As of March 31, 2009 and 2008, we had deferred \$82 million and \$81 million related to these contracts, which was included in deferred revenue in the consolidated balance sheets. We generally have been successful in achieving performance goals under these contracts.

Supplier Incentives: We generally account for fees for service and other incentives received from our suppliers, relating to the purchase or distribution of inventory, as a reduction to cost of goods sold. We consider these fees to represent product discounts and as a result, the fees are recorded as a reduction of product cost and recognized through cost of goods sold upon the sale of the related inventory.

Supplier Reserves: We establish reserves against amounts due from our suppliers relating to various price and rebate incentives, including deductions or billings taken against payments otherwise due to them. These reserve estimates are established based on our judgment after carefully considering the status of current outstanding claims, historical experience with the suppliers, the specific incentive programs and any other pertinent information available to us. We evaluate the amounts due from our suppliers on a continual basis and adjust the reserve estimates when appropriate based on changes in factual circumstances. The ultimate outcome of any outstanding claim may be different than our estimate. As of March 31, 2009 and 2008, supplier reserves were \$113 million and \$82 million.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Income Taxes: We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statements and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Tax benefits from uncertain tax positions are recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The amount recognized is measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon effective settlements. Deferred taxes are not provided on undistributed earnings of our foreign operations that are considered to be permanently reinvested.

Foreign Currency Translation: Our international subsidiaries generally consider their local currency to be their functional currency. Assets and liabilities of these international subsidiaries are translated into U.S. dollars at year-end exchange rates and revenues and expenses are translated at average exchange rates during the year. Cumulative currency translation adjustments are included in accumulated other comprehensive income or losses in the stockholders' equity section of the consolidated balance sheets. Realized gains and losses from currency exchange transactions are recorded in operating expenses in the consolidated statements of operations and were not material to our consolidated results of operations in 2009, 2008 or 2007.

Derivative Financial Instruments: Derivative financial instruments are used principally in the management of our foreign currency and interest rate exposures and are recorded on the consolidated balance sheets at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized as a charge or credit to earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in accumulated other comprehensive income or losses and are recognized in the consolidated statements of operations when the hedged item affects earnings. We periodically evaluate hedge effectiveness and ineffective portions of changes in the fair value of cash flow hedges are recognized as a charge or credit to earnings. Derivative instruments not designated as hedges are marked-to-market at the end of each accounting period with the results included in earnings.

Accounts Receivable Sales: At March 31, 2009, we had a \$1.0 billion revolving receivables sales facility. Through this facility, McKesson Corporation sells certain U.S. Pharmaceutical trade accounts receivable on a non-recourse basis to a wholly-owned and consolidated subsidiary which then sells these receivables to a special purpose entity ("SPE"), which is a wholly-owned, bankruptcy-remote subsidiary of McKesson Corporation that is consolidated in our financial statements. This SPE then sells undivided interests in the receivables to third-party purchaser groups, each of which includes commercial paper conduits ("Conduits"), which are special purpose corporations administered by financial institutions.

Sales of undivided interests in the receivables by the SPE to the Conduits are accounted for as a sale in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," because we have relinquished control of the receivables. Accordingly, accounts receivable sold under these transactions are excluded from receivables, net in the accompanying consolidated balance sheets. Receivables sold and receivables retained by the Company are carried at face value, which due to the short-term nature of our accounts receivable and terms of the facility, approximates fair value. McKesson receives cash in the amount of the face value for the receivables sold. No gain or loss is recorded upon sale as fee charges from the Conduits are based upon a floating yield rate and the period the undivided interests remain outstanding. Fee charges from the Conduits are accrued at the end of each month and are recorded in administrative expenses in the consolidated statements of operations. Should we default under the accounts receivable sales facility, the Conduits are entitled to receive only collections on receivables owned by the SPE.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

We continue servicing the receivables sold. No servicing asset is recorded at the time of sale because we do not receive any servicing fees from third parties or other income related to servicing the receivables. We do not record any servicing liability at the time of sale as the receivables collection period is relatively short and the costs of servicing the receivables sold over the servicing period are insignificant. Servicing costs are recognized as incurred over the servicing period. See Financial Note 12, "Long-Term Debt and Other Financing," for additional information.

Share-Based Payment: We account for all share-based payment transactions using a fair-value based measurement method. The share-based compensation expense is recognized, for the portion of the awards that is ultimately expected to vest, on a straight-line basis over the requisite service period for those awards with graded vesting and service conditions. For awards with performance conditions and multiple vest dates, we recognize the expense on a graded vesting basis. For awards with performance conditions and a single vest date, we recognize the expense on a straight-line basis. The compensation expense recognized has been classified in the consolidated statements of operations or capitalized on the consolidated balance sheets in the same manner as cash compensation paid to our employees.

Recently Adopted Accounting Pronouncements: On April 1, 2007, we adopted Financial Accounting Standards Board Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes." Among other things, FIN No. 48 requires application of a "more likely than not" threshold for the recognition and derecognition of tax positions. It further requires that a change in judgment related to prior years' tax positions be recognized in the quarter of such change. The April 1, 2007 adoption of FIN No. 48 resulted in a reduction of our retained earnings by \$46 million.

Effective March 31, 2007, we adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." SFAS No. 158 requires the recognition of an asset or a liability in the consolidated balance sheets reflecting the funded status of pension and other postretirement benefits, with current year changes in the funded status recognized in stockholders' equity. SFAS No. 158 did not change the existing criteria for measurement of periodic benefit costs, plan assets or benefit obligations. Additionally, SFAS No. 158 requires that the measurement of defined benefit plan assets and obligations be performed as of the Company's fiscal year-end. The measurement date provision of SFAS No. 158 was adopted in the fourth quarter of 2009 and did not have a material impact on our consolidated financial statements.

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements," which provides a consistent definition of fair value that focuses on exit price and prioritizes the use of market-based inputs over entity-specific inputs for measuring fair value. SFAS No. 157 requires expanded disclosures about fair value measurements and establishes a three-level hierarchy for fair value measurements. In February 2008, the FASB issued FASB Staff Position ("FSP") Financial Accounting Standard ("FAS") No. 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13," which removes leasing from the scope of SFAS No. 157. In February 2008, the FASB also issued FSP FAS No. 157-2, "Effective Date of FASB Statement No. 157," which permits companies to partially defer the effective date of SFAS No. 157 for one year for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a nonrecurring basis.

On April 1, 2008, we adopted SFAS No. 157 for financial assets and financial liabilities and for nonfinancial assets and nonfinancial liabilities that are remeasured at least annually. We have elected to defer adoption of SFAS No. 157 for one year for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. Accordingly, we have not applied the provisions of SFAS No. 157 for the fair value measurement of the nonfinancial assets and nonfinancial liabilities that we recorded in connection with our business acquisitions during the year. The provisions of SFAS No. 157 are applied prospectively. The adoption of SFAS No. 157 on April 1, 2008 did not have a material impact on our consolidated financial statements and no adjustment to retained earnings was required. We will adopt the provision of SFAS No. 157 regarding nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis on April 1, 2009. We do not expect the adoption will have a material impact on our consolidated financial statements.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

On October 10, 2008, we adopted FSP No. FAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active,” which applies to financial assets within the scope of accounting pronouncements that require or permit fair value measurements in accordance with SFAS No. 157. This FSP clarifies the application of SFAS No. 157 and defines additional key criteria in determining the fair value of a financial asset when the market for that financial asset is not active. The adoption of this FSP did not have a material impact on our consolidated financial statements.

On April 1, 2008, we adopted SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115.” SFAS No. 159 permits us to elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities that are not otherwise required to be measured at fair value on an instrument-by-instrument basis. If we elect the fair value option, we would be required to recognize subsequent changes in fair value in our earnings. This standard also establishes presentation and disclosure requirements designed to improve comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. While SFAS No. 159 became effective for us in 2009, we did not elect the fair value measurement option for any of our existing assets and liabilities and accordingly, SFAS No. 159 did not have any impact on our consolidated financial statements. We could elect this option for new or substantially modified assets and liabilities in the future.

On April 1, 2008, we adopted SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133.” This statement requires enhanced disclosures about (1) how and why an entity uses derivative instruments, (2) how derivative instruments and related hedged items are accounted for under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” and its related interpretations and (3) how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flows. The adoption of this standard did not have a material impact on our consolidated financial statements.

On October 1, 2008, we adopted FSP No. FAS 133-1 and FIN No. 45-4, “Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FAS No. 133 and FIN No. 45; and Clarification of the Effective Date of FAS No. 161.” The adoption of this standard did not have an impact on our consolidated financial statements.

On November 15, 2008, we adopted SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles.” This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. While this statement formalizes the sources and hierarchy of GAAP within the authoritative accounting literature, it did not change the accounting principles that were already in place. The adoption of this standard did not have a material impact on our consolidated financial statements.

On December 31, 2008, we adopted FSP No. FAS 140-4 and FIN No. 46(R)-8, “Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities.” This FSP amends SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” and FIN No. 46 (revised December 2003), “Consolidation of Variable Interest Entities,” to require enhanced disclosures by public entities in understanding the extent of a transferor’s continuing involvement with transferred financial assets and an enterprise’s involvement with VIEs. The adoption of this standard did not have a material impact on our consolidated financial statements.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Newly Issued Accounting Pronouncements: In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations.” SFAS No. 141(R) amends SFAS No. 141, “Business Combinations” and provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed and any noncontrolling interest in the acquiree. Additionally, this SFAS provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for all business combinations for which the acquisition date is on or after April 1, 2009 with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS No. 141(R) amends SFAS No. 109, “Accounting for Income Taxes,” such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies related to acquisitions prior to the effective date of SFAS No. 141(R) are also required to apply the provisions of this standard. Early adoption of this SFAS was not permitted. This SFAS will not have a material impact on our consolidated financial statements upon adoption; however, the SFAS will have an impact on any future acquisitions.

In April 2009, the FASB issued FSP No. FAS 141(R)-1, “Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies.” FSP No. FAS 141(R)-1 amends and clarifies SFAS No. 141(R) to address application issues raised on the initial recognition and measurement, subsequent measurement and accounting and disclosure of assets and liabilities arising from contingencies in a business combination. This FSP applies to all assets acquired and liabilities assumed in a business combination that arise from contingencies that would be within the scope of SFAS No. 5, “Accounting for Contingencies,” if not acquired or assumed in a business combination, except for assets or liabilities arising from contingencies that are subject to specific guidance in SFAS No. 141(R). For us, FSP No. FAS 141(R)-1 will be effective for assets and liabilities arising from contingencies in business combinations for which the acquisition date is on or after April 1, 2009. This FSP will not have a material impact on our consolidated financial statements upon adoption; however, the FSP will have an impact on any future acquisitions.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51.” This statement requires reporting entities to present noncontrolling interests as equity (as opposed to a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. This SFAS becomes effective for us on April 1, 2009. This SFAS will not have a material impact on our consolidated financial statements upon adoption; however, the SFAS may have an impact on any future investments or divestitures of our investments.

In April 2008, the FASB issued FSP No. FAS 142-3, “Determination of the Useful Life of Intangible Assets.” FSP No. FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, “Goodwill and Other Intangible Assets.” This FSP becomes effective for us on April 1, 2009. We do not currently anticipate that this FSP will have a material impact on our consolidated financial statements upon adoption.

In June 2008, the FASB issued FSP No. EITF 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.” FSP No. EITF 03-6-1 concluded that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of basic earnings per share pursuant to the two-class method. This FSP becomes effective for us on April 1, 2009. Early adoption of the FSP was not permitted; however, it will apply retrospectively to our earnings per share as previously reported. We do not currently anticipate that this FSP will have a material impact on our consolidated financial statements upon adoption.

In December 2008, the FASB issued FSP No. FAS 132(R)-1, “Employers’ Disclosures about Postretirement Benefit Plan Assets.” FSP No. FAS 132(R)-1 amends FAS No. 132 (revised 2003), “Employers’ Disclosures about Pensions and Other Postretirement Benefits,” to provide guidance on an employer’s disclosures about plan assets of a defined benefit pension or other postretirement plan. This FSP will become effective for us in 2010. We do not currently anticipate that this SFAS will have a material impact on our consolidated financial statements upon adoption.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

In April 2009, the FASB issued FSP No. FAS 107-1 and Accounting Principles Board (“APB”) Opinion No. 28-1, “Interim Disclosures about Fair Value of Financial Instruments.” FSP No. FAS 107-1 and APB Opinion No. 28-1 amends FASB Statement No. 107, “Disclosures about Fair Value of Financial Instruments,” to require disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements. This FSP also amends APB Opinion No. 28, “Interim Financial Reporting,” to require those disclosures in interim financial statements. FSP No. FAS 107-1 and APB Opinion No. 28-1 does not require disclosures for earlier periods presented for comparative purposes at initial adoption. This FSP becomes effective for us on June 30, 2009. We do not currently anticipate that this FSP will have a material impact on our consolidated financial statements upon adoption.

In April 2009, the FASB issued FSP No. FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly.” FSP No. FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for the asset or liability have significantly decreased. Additionally, this FSP provides guidance on identifying circumstances that indicate a transaction is not orderly. Retrospective application of this FSP to a prior interim or annual reporting period was not permitted. This FSP becomes effective for us on June 30, 2009. We do not currently anticipate that this FSP will have a material impact on our consolidated financial statements upon adoption.

2. Acquisitions and Investment

In 2009, we made the following acquisition:

- On May 21, 2008, we acquired McQueary Brothers Drug Company (“McQueary Brothers”) of Springfield, Missouri for approximately \$190 million. McQueary Brothers is a regional distributor of pharmaceutical, health and beauty products to independent and regional chain pharmacies in the Midwestern U.S. This acquisition expanded our existing U.S. pharmaceutical distribution business. The acquisition was funded with cash on hand. Financial results for McQueary Brothers have been included within our Distribution Solutions segment since the date of acquisition.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date:

(In millions)

Accounts receivable	\$ 37
Inventory	41
Goodwill	126
Intangible assets	67
Other assets	11
Accounts payable and other liabilities	(60)
Deferred tax liability	(32)
Net assets acquired, less cash and cash equivalents	<u>\$ 190</u>

Approximately \$126 million of the purchase price allocation has been assigned to goodwill, which primarily reflects the expected future benefits from synergies to be realized upon integrating the business. Included in the purchase price allocation are acquired identifiable intangibles of \$61 million representing a customer relationship with a useful life of 7 years, a trade name of \$2 million with a useful life of less than one year and a not-to-compete agreement of \$4 million with a useful life of 4 years.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

In 2008, we made the following acquisition:

- On October 29, 2007, we acquired all of the outstanding shares of Oncology Therapeutics Network (“OTN”) of San Francisco, California for approximately \$519 million, including the assumption of debt and net of \$31 million of cash and cash equivalents acquired from OTN. OTN is a U.S. distributor of specialty pharmaceuticals. The acquisition of OTN expanded our existing specialty pharmaceutical distribution business. The acquisition was funded with cash on hand. Financial results of OTN have been included within our Distribution Solutions segment since the date of acquisition.

The following table summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date:

(In millions)

Accounts receivable	\$	308
Inventory		87
Goodwill		240
Intangible assets		128
Deferred tax assets		62
Other assets		36
Accounts payable		(311)
Other liabilities		(31)
Net assets acquired, less cash and cash equivalents	\$	519

Approximately \$240 million of the purchase price allocation has been assigned to goodwill, which primarily reflects the expected future benefits from synergies upon integrating the business. Included in the purchase price allocation are acquired identifiable intangibles of \$115 million representing customer relationships with a weighted-average life of 9 years, developed technology of \$3 million with a weighted-average life of 4 years and trademarks and trade names of \$10 million with a weighted-average life of 5 years.

In 2007, we made the following acquisitions and investment:

- On January 26, 2007, we acquired all of the outstanding shares of Per-Se Technologies, Inc. (“Per-Se”) of Alpharetta, Georgia for \$28.00 per share in cash plus the assumption of Per-Se’s debt, or approximately \$1.8 billion in aggregate, including cash acquired of \$76 million. Per-Se is a leading provider of financial and administrative healthcare solutions for hospitals, physicians and retail pharmacies. The acquisition of Per-Se is consistent with the Company’s strategy of providing products that help solve clinical, financial and business processes within the healthcare industry. The acquisition was initially funded with cash on hand and through the use of an interim credit facility. In March 2007, we issued \$1 billion of long-term debt, with such net proceeds after offering expenses from the issuance, together with cash on hand, being used to fully repay borrowings outstanding under the interim credit facility (refer to Financial Note 12, “Long-Term Debt and Other Financing”). Financial results for Per-Se are primarily included within our Technology Solutions segment.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

The following table summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date:

(In millions)

Accounts receivable	\$	107
Property and equipment		41
Other current and noncurrent assets		115
Goodwill		1,258
Intangible assets		471
Accounts payable		(8)
Other current liabilities		(126)
Deferred revenue		(30)
Long-term liabilities		(96)
Net assets acquired, less cash and cash equivalents	\$	1,732

Approximately \$1,258 million of the purchase price allocation has been assigned to goodwill, which primarily reflects the expected future benefits from synergies upon integrating the business. Included in the purchase price allocation are acquired identifiable intangibles of \$402 million representing customer relationships with a weighted-average life of 10 years, developed technology of \$56 million with a weighted-average life of 5 years, and trademark and trade names of \$13 million with a weighted-average life of 5 years.

In connection with the purchase price allocation, we have estimated the fair value of the support obligations assumed from Per-Se in connection with the acquisition. The estimated fair value of these obligations was determined utilizing a cost build-up approach. The cost build-up approach determines fair value by estimating the costs relating to fulfilling the obligations plus a normal profit margin. The sum of the costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume these obligations. As a result, in allocating the purchase price, we recorded an adjustment to reduce the carrying value of Per-Se's deferred revenue by \$17 million to \$30 million, which represents our estimate of the fair value of the obligation assumed.

- Our Technology Solutions segment acquired RelayHealth Corporation (“RelayHealth”) based in Emeryville, California. RelayHealth is a provider of secure online healthcare communication services linking patients, healthcare professionals, payors and pharmacies. This segment also acquired two other entities, one specializing in patient billing solutions designed to simplify and enhance healthcare providers’ financial interactions with their patients as well as a provider of integrated software for electronic health records, medical billing and appointment scheduling for independent physician practices. The total cost of these three entities was \$90 million, which was paid in cash. Goodwill recognized in these transactions amounted to \$63 million.
- Our Distribution Solutions segment acquired Sterling Medical Services, LLC (“Sterling”) which is based in Moorestown, New Jersey. Sterling is a national provider and distributor of disposable medical supplies, health management services and quality management programs to the home care market. This segment also acquired a medical supply sourcing agent. The total cost of these two entities was \$95 million, which was paid in cash. Goodwill recognized in these transactions amounted to \$47 million.
- We contributed \$36 million in cash and \$45 million in net assets primarily from our Pharmacy Systems and Automation business to Parata Systems, LLC (“Parata,”) in exchange for a significant minority interest in Parata. Parata is a manufacturer of pharmacy robotic equipment. In connection with the investment, we abandoned certain assets which resulted in a \$15 million charge to cost of sales and we incurred \$6 million of other expenses related to the transaction which were recorded within operating expenses. We did not recognize any additional gains or losses as a result of this transaction as we believed the fair value of our investment in Parata approximated the carrying value of consideration contributed to Parata.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

During the last three years, we also completed a number of other smaller acquisitions and investments within both of our operating segments. Financial results for our business acquisitions have been included in our consolidated financial statements since their respective acquisition dates. Purchase prices for our business acquisitions have been allocated based on estimated fair values at the date of acquisition and for certain recent acquisitions, may be subject to change as we continue to evaluate and implement various restructuring initiatives. Goodwill recognized for our business acquisitions is generally not expected to be deductible for tax purposes. Pro forma results of operations for our business acquisitions have not been presented because the effects were not material to the consolidated financial statements on either an individual or an aggregate basis.

3. Share-Based Payment

We provide share-based compensation for our employees, officers and non-employee directors, including stock options, an employee stock purchase plan, restricted stock ("RS"), restricted stock units ("RSUs") and performance-based restricted stock units ("PeRSUs") (collectively, "share-based awards.") On April 1, 2006, we adopted SFAS No. 123(R), "Share-Based Payment." Accordingly, we began to recognize compensation expense for the fair value of share-based awards granted, modified, repurchased or cancelled from April 1, 2006 forward. Compensation expense is recognized for the portion of the awards that is ultimately expected to vest. For the unvested portion of awards issued prior to and outstanding as of April 1, 2006, the expense is recognized at the grant-date fair value as the remaining requisite service is rendered.

We develop an estimate of the number of share-based awards which will ultimately vest primarily based on historical experience. The estimated forfeiture rate established upon grant is re-assessed throughout the requisite service period. As required, the forfeiture estimates will be adjusted to reflect actual forfeitures when an award vests. The actual forfeitures in future reporting periods could be higher or lower than our current estimates. The weighted-average forfeiture rate is approximately 4% at March 31, 2009. As a result, the future share-based compensation expense may differ from the Company's historical amounts.

The compensation expense recognized under SFAS No. 123(R) has been classified in the consolidated statements of operations or capitalized on the consolidated balance sheets in the same manner as cash compensation paid to our employees. There was no material share-based compensation expense capitalized as part of the cost of an asset in 2009, 2008 and 2007.

We utilize the "short-cut" method for calculating the tax effects of share-based compensation. Under this method, a simplified calculation is applied in establishing the beginning additional paid-in capital ("APIC") pool balance as well as determining the future impact on the APIC pool and our consolidated statements of cash flows relating to the tax effects of share-based compensation.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Impact on Net Income

The components of share-based compensation expense and the related tax benefit are shown in the following table:

<i>(In millions, except per share amounts)</i>	Years Ended March 31,		
	2009	2008	2007
RSUs and RS ⁽¹⁾	\$ 60	\$ 50	\$ 22
PeRSUs ⁽²⁾	13	22	24
Stock options	18	11	7
Employee stock purchase plan	8	8	7
Share-based compensation expense	99	91	60
Tax benefit for share-based compensation expense ⁽³⁾	(34)	(31)	(20)
Share-based compensation expense, net of tax ⁽⁴⁾	\$ 65	\$ 60	\$ 40
Impact of share-based compensation:			
Earnings per share			
Diluted	\$ 0.23	\$ 0.20	\$ 0.13
Basic	0.24	0.21	0.13

- (1) This expense was primarily the result of PeRSUs awarded in prior years, which converted to RSUs due to the attainment of goals during the applicable years' performance period.
- (2) Represents estimated compensation expense for PeRSUs that are conditional upon attaining performance objectives during the current year's performance period.
- (3) Income tax expense is computed based on applicable tax jurisdictions. Additionally, a portion of pre-tax compensation expense is not tax-deductible.
- (4) No material share-based compensation expense was included in Discontinued Operations.

Stock Plans

The 2005 Stock Plan provides our employees, officers and non-employee directors share-based long-term incentives. The 2005 Stock Plan permits the granting of up to 28 million shares in the form of stock options, RS, RSUs, PeRSUs and other share-based awards. As of March 31, 2009, 12 million shares remain available for future grant. As a result of acquisitions, we currently have 2 other option plans under which no further awards have been made since their respective acquisition dates.

Stock Options

Stock options are granted at no less than fair market value and those options granted under the 2005 Stock Plan generally have a contractual term of seven years and follow a four-year vesting schedule. Prior to 2005, stock options typically vested over a four-year period and had a contractual term of ten years. We expect option grants in 2010 and future years will have the same general contractual life and vesting schedule as those options granted under the 2005 Stock Plan.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Compensation expense for stock options is recognized on a straight-line basis over the requisite service period and is based on the grant-date fair value for the portion of the awards that is ultimately expected to vest. We continue to use the Black-Scholes model to estimate the fair value of our stock options. Once the fair value of an employee stock option is determined, current accounting practices do not permit it to be changed, even if the estimates used are different from actual. The option pricing model requires the use of various estimates and assumptions as follows:

- Expected stock price volatility is based on a combination of historical volatility of our common stock and implied market volatility. We believe that this market-based input provides a better estimate of our future stock price movements and is consistent with employee stock option valuation considerations.
- Expected dividend yield is based on historical experience and investors' current expectations.
- The risk-free interest rate for periods within the expected life of the option is based on the constant maturity U.S. Treasury rate in effect at the time of grant.
- Expected life of the options is based primarily on historical employee stock option exercise and other behavior data and also reflects the impact of changes in contractual life of current option grants compared to our historical grants.

Weighted-average assumptions used to estimate the fair value of employee stock options were as follows:

	Years Ended March 31,		
	2009	2008	2007
Expected stock price volatility	27%	24%	27%
Expected dividend yield	0.6%	0.4%	0.5%
Risk-free interest rate	3%	5%	5%
Expected life (in years)	5	5	5

The following is a summary of options outstanding at March 31, 2009:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Options Outstanding At Year End (In millions)	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Options Exercisable at Year End (In millions)	Weighted-Average Exercise Price
\$ 13.67 - \$ 27.35	1	1	\$ 21.27	1	\$ 21.27
\$ 27.36 - \$ 41.02	12	3	34.06	12	34.06
\$ 41.03 - \$ 54.70	4	3	45.94	3	45.58
\$ 54.71 - \$ 68.37	2	6	59.61	-	62.26
	19	3	39.28	16	36.22

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The following table summarizes stock option activity during 2009, 2008 and 2007:

<i>(In millions, except per share data and years)</i>	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ⁽²⁾
Outstanding, March 31, 2006	46	\$ 43.38		
Granted	1	48.13		
Exercised	(11)	33.71		
Outstanding, March 31, 2007	36	46.32	4	\$ 601
Granted	1	62.12		
Exercised	(9)	36.43		
Cancelled and forfeited	(2)	69.35		
Outstanding, March 31, 2008	26	48.59	3	298
Granted	1	57.81		
Exercised	(1)	33.49		
Cancelled and forfeited	(7)	78.35		
Outstanding, March 31, 2009	19	39.28	3	33
Vested and expected to vest ⁽¹⁾	19	38.67	3	33
Exercisable, March 31, 2009	16	36.22	3	33

(1) The number of options expected to vest takes into account an estimate of expected forfeitures.

(2) The aggregate intrinsic value is calculated as the difference between the period-end market price of the Company's common stock and the option exercise price, times the number of "in-the-money" option shares.

The following table provides data related to all stock option activity:

<i>(In millions, except per share data and years)</i>	Years Ended March 31,		
	2009	2008	2007
Weighted-average grant date fair value per stock option	\$ 16.16	\$ 17.90	\$ 15.43
Aggregate intrinsic value on exercise	\$ 30	\$ 220	\$ 204
Cash received upon exercise	\$ 49	\$ 309	\$ 354
Tax benefits realized related to exercise	\$ 14	\$ 83	\$ 74
Total fair value of shares vested	\$ 13	\$ 8	\$ 4
Total compensation cost, net of estimated forfeitures, related to unvested stock options not yet recognized, pre-tax	\$ 30	\$ 25	18
Weighted-average period in years over which stock option compensation cost is expected to be recognized	1	1	2

RS, RSUs and PeRSUs

RS and RSUs, which entitle the holder to receive at the end of a vesting term, a specified number of shares of the Company's common stock are accounted for at fair value at the date of grant. The fair value of RS and RSUs under our stock plans is determined by the product of the number of shares that are expected to vest and the grant date market price of the Company's common stock. The Compensation Committee determines the vesting terms at the time of grant. These awards generally vest in four years. We have elected to expense the fair value of RS and RSUs with only graded vesting and service conditions on a straight-line basis over the requisite service period. RS contains certain restrictions on transferability and may not be transferred until such restrictions lapse.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Non-employee directors receive an annual grant of up to 5,000 RSUs, which vest immediately and are expensed upon grant. However, payment of any shares granted prior to the July 2008 Annual Meeting of Stockholders is delayed until the director is no longer performing services for the Company. For those RSUs granted subsequent to July 2008, the director may receive payment immediately or defer receipt of shares if they meet director stock ownership guidelines. At March 31, 2009, 78,000 RSUs for our directors are vested, but shares have not been issued.

PeRSUs are RSUs for which the number of RSUs awarded may be conditional upon the attainment of one or more performance objectives over a specified period. PeRSUs are accounted for as variable awards until the performance goals are reached and the grant date is established. The fair value of PeRSUs is determined by the product of the number of shares eligible to be awarded and expected to vest, and the market price of the Company's common stock, commencing at the inception of the requisite service period. During the performance period, the PeRSUs are re-valued using the market price and the performance modifier at the end of a reporting period. At the end of the performance period, if the goals are attained, the awards are granted and classified as RSUs and accounted for on that basis. For PeRSUs granted prior to 2009 with multiple vest dates, we recognize the fair value of these awards on a graded vesting basis over the requisite service period of four years. 2009 PeRSUs and the related RSUs (when they will be granted in 2010) have a single vest date and accordingly, we recognize expense on a straight-line basis over the requisite service period of four years.

The following table summarizes RS and RSU activity during 2009, 2008 and 2007:

<i>(In millions, except per share data)</i>	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested, March 31, 2006	1	\$ 38.01
Granted	1	49.56
Nonvested, March 31, 2007	2	45.18
Granted	1	61.92
Nonvested, March 31, 2008	3	54.13
Granted	1	57.38
Vested	(1)	57.61
Nonvested, March 31, 2009	3	54.70

The following table provides data related to RS and RSU activity:

<i>(Dollars in millions)</i>	Years Ended March 31,		
	2009	2008	2007
Total fair value of shares vested	\$ 101	\$ 20	\$ 5
Total compensation cost, net of estimated forfeitures, related to nonvested RSU awards not yet recognized, pre-tax	\$ 52	\$ 49	\$ 32
Weighted-average period in years over which RSU cost is expected to be recognized	1	1	2

In May 2008, the Compensation Committee approved 1 million PeRSU target share units representing the base number of awards that could be granted, if goals are attained, and would be granted in the first quarter of 2010 (the "2009 PeRSU"). These target share units are not included in the table above as they have not been granted in the form of RSUs. As of March 31, 2009, the total compensation cost, net of estimated forfeitures, related to nonvested 2009 PeRSUs not yet recognized was approximately \$46 million, pre-tax (based on the period-end market price of the Company's common stock) and the weighted-average period over which the cost is expected to be recognized is 3 years.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

In accordance with the provisions of SFAS No. 128, "Earnings per Share," the 2009 PerSUs are included in the calculation of diluted weighted average shares for the year ended March 31, 2009 as the performance goals have been achieved.

Employee Stock Purchase Plan ("ESPP")

The Company has an ESPP under which 16 million shares have been authorized for issuance. The ESPP allows eligible employees to purchase shares of our common stock through payroll deductions. The deductions occur over three-month purchase periods and the shares are then purchased at 85% of the market price at the end of each purchase period. Employees are allowed to terminate their participation in the ESPP at any time during the purchase period prior to the purchase of the shares. The 15% discount provided to employees on these shares is included in compensation expense. The funds outstanding at the end of a quarter are included in the calculation of diluted weighted average shares outstanding. These amounts have not been significant. In 2009, 2008 and 2007, 1 million shares were issued under the ESPP and 4 million shares remain available for issuance at March 31, 2009.

4. Restructuring Activities and Other Workforce Reduction Charges

The following table summarizes the activity related to our restructuring liabilities for the three years ended March 31, 2009:

(In millions)	Distribution Solutions		Technology Solutions		Corporate	Total
	Severance	Exit-Related	Severance	Exit-Related	Severance	
Balance, March 31, 2006	\$ 6	\$ 29	\$ -	\$ 1	\$ -	\$ 36
Expenses	3	(1)	13	-	-	15
Liabilities related to acquisitions	-	(14)	8	4	-	(2)
Cash expenditures	(6)	(8)	(5)	-	-	(19)
Balance, March 31, 2007	3	6	16	5	-	30
Expenses	5	-	1	4	2	12
Asset impairments	-	3	-	4	-	7
Total charge	5	3	1	8	2	19
Liabilities related to acquisitions	6	1	11	1	-	19
Cash expenditures	(7)	-	(22)	(4)	-	(33)
Non-cash items	-	(3)	-	(4)	-	(7)
Balance, March 31, 2008	7	7	6	6	2	28
Expenses	4	-	(1)	(1)	(1)	1
Liabilities related to acquisitions	3	1	-	-	-	4
Cash expenditures	(8)	(5)	(4)	(2)	-	(19)
Non-cash items	-	-	-	(1)	-	(1)
Balance, March 31, 2009	\$ 6	\$ 3	\$ 1	\$ 2	\$ 1	\$ 13

Our restructuring activities are primarily due to the consolidation of business functions and facilities from newly acquired businesses.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***Restructuring Activities and Asset Impairment – Expenses*

During 2009, there were no material restructuring costs incurred.

During 2008, we incurred \$19 million of restructuring expenses which primarily consisted of:

- \$4 million of severance costs associated with the closure of two facilities within our Distribution Solutions segment,
- \$1 million and \$3 million of severance and asset impairments associated with the integration of OTN within our Distribution Solutions segment, and
- \$5 million of severance and exit-related costs and a \$4 million asset impairment charge for the write-off of capitalized software costs associated with the termination of a software project within our Technology Solutions segment.

During 2007, we recorded \$15 million of restructuring expenses, of which \$8 million pertained to employee severance costs associated with the reallocation of product development and marketing resources and the realignment of an international business within our Technology Solutions segment.

Restructuring Activities – Liabilities Related to Acquisitions

In connection with our OTN acquisition within our Distribution Solutions segment, to date we recorded a total of \$7 million of employee severance costs and \$4 million of facility exit costs. In connection with our Per-Se acquisition within our Technology Solutions segment, we recorded a total of \$19 million of employee severance costs and \$3 million of facility exit and contract termination costs. In 2007, in connection with the Company's investment in Parata, \$13 million of contract termination costs that were initially estimated as part of a prior year acquisition were extinguished and as a result, the Company decreased goodwill and its restructuring liability.

As of March 31, 2009, the majority of the restructuring accruals of \$13 million, which primarily consist of employee severance costs and facility exit and contract termination costs, are anticipated to be disbursed through 2010. Accrued restructuring liabilities are included in other accrued and other noncurrent liabilities in the consolidated balance sheets.

Based on our current existing initiatives, we expect to complete the majority of these activities by the end of 2010. Expenses associated with these existing initiatives are not anticipated to be material. We are however, continuing to evaluate other restructuring initiatives primarily pertaining to our newly acquired businesses, which may have an impact on future net income. Approximately 935 employees, consisting primarily of distribution, general and administrative staffs were planned to be terminated as part of our restructuring plans, of which 661 employees had been terminated as of March 31, 2009. Restructuring expenses are included in cost of sales and operating expenses in our consolidated statements of operations.

Other Workforce Reduction Charges

In 2009 and 2008, we recorded \$32 million (\$7 million for our Distribution Solutions Segment and \$25 million for our Technology Solutions segment) and \$8 million of charges (for our Technology Solutions segment) associated with various reductions in workforce. Although these actions do not constitute a restructuring plan (as defined under GAAP), they do represent independent actions taken from time to time, as appropriate. These charges were recorded within our consolidated statements of operations as follows: \$5 million and \$7 million in cost of sales in 2009 and 2008 and \$28 million and \$20 million within operating expenses.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

5. Other Income, Net

(In millions)	Years Ended March 31,		
	2009	2008	2007
Interest income	\$ 31	\$ 89	\$ 103
Equity in earnings, net	7	21	23
Gain on sale of investment	24	-	-
Impairment of investments	(63)	-	-
Other, net	13	11	6
Total	\$ 12	\$ 121	\$ 132

We evaluate our investments for impairment when events or changes in circumstances indicate that the carrying values of such investment may have experienced an other than temporary decline in value. During the fourth quarter of 2009, we determined that the fair value of our interest in Parata was lower than its carrying value and that such impairment was other than temporary. Fair value was determined using a discounted cash flow analysis based on estimated future results and market capitalization rates. We determined the impairment was other than temporary based on our assessment of all relevant factors including a deterioration in the investee's financial condition and weak market conditions. As a result, we recorded a pre-tax impairment of \$58 million (\$55 million after-tax) on this investment which is recorded within other income, net in the consolidated statements of operations. Our investment in Parata is accounted for under the equity method of accounting within our Distribution Solutions segment.

During the fourth quarter of 2009, we also recorded a pre-tax impairment of \$5 million (\$5 million after-tax) on another equity-held investment within our Distribution Solutions segment.

In July 2008, our Distribution Solutions segment sold its 42% equity interest in Verispan, L.L.C. ("Verispan"), a data analytics company, for a pre-tax gain of approximately \$24 million or \$14 million after-tax.

6. Income Taxes

(In millions)	Years Ended March 31,		
	2009	2008	2007
Income from continuing operations before income taxes			
U.S.	\$ 623	\$ 1,059	\$ 987
Foreign	441	398	310
Total income from continuing operations before income taxes	\$ 1,064	\$ 1,457	\$ 1,297

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The provision for income taxes related to continuing operations consists of the following:

(In millions)	Years Ended March 31,		
	2009	2008	2007
Current			
Federal	\$ 177	\$ 189	\$ 71
State and local	(111)	59	69
Foreign	35	22	22
Total current	101	270	162
Deferred			
Federal	69	178	204
State and local	62	16	(18)
Foreign	9	4	(19)
Total deferred	140	198	167
Income tax provision	\$ 241	\$ 468	\$ 329

In 2009, we recorded a total income tax expense of \$241 million, which included an income tax benefit of \$182 million related to the Average Wholesale Price (“AWP”) Litigation charge described in more detail in Financial Note 18, “Other Commitments and Contingent Liabilities.” The tax benefit could change in the future depending on the resolution of the pending and expected claims.

In 2009, current income tax expense included \$111 million of net income tax benefits for discrete items, which primarily relate to the recognition of previously unrecognized tax benefits and related accrued interest. The recognition of these discrete items is primarily due to the lapsing of the statutes of limitations. Of the \$111 million of net current tax benefits, \$87 million represents a non-cash benefit to McKesson. In accordance with SFAS No. 109, “Accounting for Income Taxes,” the net tax benefit is included in our income tax expense from continuing operations.

In June 2008, the U.S. Internal Revenue Service (“IRS”) began its examination of fiscal years 2003 through 2006. On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (“Stabilization Act”), which included a retroactive reinstatement of the federal research and development credit, was signed into law. The Stabilization Act extends the federal research and development credit to December 31, 2009. In 2009, we recorded a benefit to our income tax provision as a result of these research and development credits. In Canada, we received an assessment from the Canada Revenue Agency (“CRA”) for a total of \$19 million related to transfer pricing for 2004. We plan to appeal the assessment. We believe we have adequately provided for any potential adverse results for 2004 and future years. In nearly all jurisdictions, the tax years prior to 2003 are no longer subject to examination. We believe that we have made adequate provision for all remaining income tax uncertainties.

In 2008, the IRS completed an examination of our consolidated income tax returns for 2000 to 2002 resulting in a signed Revenue Agent Report (“RAR”), which was approved by the Joint Committee on Taxation during the third quarter of 2008. The IRS and the Company have agreed to certain adjustments, primarily related to transfer pricing and income tax credits. As a result of the approved RAR, we recognized approximately \$25 million of net federal and state income tax benefits. In Canada, we received an assessment from the CRA for a total of \$9 million related to transfer pricing for 2003. We have filed an appeal with the Tax Court of Canada. We believe we have adequately provided for any potential adverse results for 2003. During 2008, we also favorably concluded various foreign examinations, which resulted in the recognition of approximately \$4 million of income tax benefits. Income tax expense for 2008 was also impacted by a non-tax deductible \$13 million increase in a legal reserve.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

In 2007, we recorded a credit to current income tax expense of \$83 million which primarily pertained to our receipt of a private letter ruling from the IRS holding that our payment of approximately \$960 million to settle our Consolidated Securities Litigation Action (refer to Financial Note 18, "Other Commitments and Contingent Liabilities," for further discussion) is fully tax-deductible. We previously established tax reserves to reflect the lack of certainty regarding the tax deductibility of settlement amounts paid in the Consolidated Securities Litigation Action and related litigation. In 2007, we also recorded \$24 million in income tax benefits arising primarily from settlements and adjustments with various taxing authorities and research and development investment tax credits from our Canadian operations.

Significant judgments and estimates are required in determining the consolidated income tax provision. Although our major taxing jurisdictions are the U.S. and Canada, we are subject to income taxes in numerous foreign jurisdictions. Annually, we file a federal consolidated income tax return with the IRS, and over 1,200 returns with various state and foreign jurisdictions. Our income tax expense, deferred tax assets and liabilities reflect management's best assessment of estimated current and future taxes to be paid.

The reconciliation between the Company's effective tax rate on income from continuing operations and the statutory tax rate is as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2009	2008	2007
Income tax provision at federal statutory rate	\$ 372	\$ 510	\$ 454
State and local income taxes net of federal tax benefit	18	43	34
Foreign tax rate differential	(120)	(120)	(104)
Consolidated Securities Litigation Action reserve	-	-	(83)
Unrecognized tax benefits and settlements	(21)	31	44
Tax credits	(20)	(16)	(5)
Other, net	12	20	(11)
Income tax provision	\$ 241	\$ 468	\$ 329

At March 31, 2009, undistributed earnings of our foreign operations totaling \$1,836 million were considered to be permanently reinvested. No deferred tax liability has been recognized for the remittance of such earnings to the U.S. since it is our intention to utilize those earnings in the foreign operations as well as to fund certain research and development activities for an indefinite period of time, or to repatriate such earnings when it is tax efficient to do so. The determination of the amount of deferred taxes on these earnings is not practicable because the computation would depend on a number of factors that cannot be known until a decision to repatriate the earnings is made.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Deferred tax balances consisted of the following:

<i>(In millions)</i>	March 31,	
	2009	2008
Assets		
Receivable allowances	\$ 70	\$ 57
Deferred revenue	170	124
Compensation and benefit-related accruals	274	286
AWP Litigation accrual	172	-
Loss and credit carryforwards	529	566
Other	357	257
Subtotal	1,572	1,290
Less: valuation allowance	(125)	(27)
Total assets	\$ 1,447	\$ 1,263
Liabilities		
Basis difference for inventory valuation and other assets	\$ (1,286)	\$ (1,097)
Basis difference for fixed assets and systems development costs	(207)	(163)
Intangibles	(238)	(154)
Other	(158)	(141)
Total liabilities	(1,889)	(1,555)
Net deferred tax liability	\$ (442)	\$ (292)
Current net deferred tax liability	\$ (695)	\$ (767)
Long term net deferred tax asset	253	475
Net deferred tax liability	\$ (442)	\$ (292)

We have federal, state and foreign income tax net operating loss carryforwards of \$267 million, \$2,731 million and \$185 million. The federal and state net operating losses will expire at various dates from 2010 through 2029. The foreign net operating losses have indefinite lives. We believe that it is more likely than not that the benefit from certain federal, state and foreign net operating loss carryforwards may not be realized. In recognition of this risk, we have provided valuation allowances of \$5 million, \$36 million and \$39 million on the deferred tax assets relating to these federal, state and foreign net operating loss carryforwards. We also have federal and state capital loss carryforwards of \$43 million and \$37 million. The federal and state net operating losses will expire at various dates from 2011 through 2029. We believe that it is more likely than not that the benefit from these capital loss carryforwards may not be realized. In recognition of this risk, we have provided valuation allowances of \$15 million and \$3 million.

We also have domestic income tax credit carryforwards of \$202 million which are primarily alternative minimum tax credit carryforwards that have an indefinite life. However, we believe that it is more likely than not that the benefit from certain state tax credits of \$4 million may not be realized. In recognition of this risk, we have provided a valuation allowance of \$4 million. In addition, we have federal and Canadian research and development credit carryforwards of \$61 million and \$11 million. The federal and Canadian research and development credits will expire at various dates from 2017 to 2028.

We adopted the provisions of FIN No. 48, "Accounting for Uncertainty in Income Taxes," as of April 1, 2007, which resulted in a reduction of our retained earnings by \$46 million. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." This standard also provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The amount recognized is measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon effective settlements. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. At April 1, 2007, our "unrecognized tax benefits" defined as the aggregate tax effect of differences between tax return positions and the benefits recognized in our financial statements, amounted to \$465 million.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The following table summarizes the activity related to our gross unrecognized tax benefits for the two years ended March 31, 2009

<i>(In millions)</i>	Unrecognized Tax Benefits
Balance at March 31, 2007	\$ 465
Additions based on tax positions related to current year	58
Reductions based on settlements	(27)
Balance at March 31, 2008	496
Additions based on tax positions related to prior years	77
Additions based on tax positions related to current year	61
Reductions based on settlements	(41)
Reductions based on the lapse of the applicable statutes of limitations	(67)
Balance at March 31, 2009	\$ 526

Of the total \$526 million in unrecognized tax benefits at March 31, 2009, \$325 million would reduce income tax expense and the effective tax rate if recognized. During the next twelve months, it is reasonably possible that audit resolutions and the expiration of statutes of limitations could potentially reduce our unrecognized tax benefits by up to \$27 million. However, this amount may change because we continue to have ongoing negotiations with various taxing authorities throughout the year.

We continue to report interest and penalties on tax deficiencies as income tax expense. At March 31, 2009, before any tax benefits, our accrued interest on unrecognized tax benefits amounted to \$101 million. We recognized an income tax benefit of \$29 million, before any tax effect, related to interest in our consolidated statements of operations during 2009. We have no material amounts accrued for penalties.

7. Discontinued Operations

Results from discontinued operations were as follows:

<i>(In millions)</i>	Years Ended March 31, ⁽¹⁾	
	2008	2007
Income (loss) from discontinued operations		
Acute Care	\$ 1	\$ (9)
Other	1	-
Income taxes	(1)	4
Total	\$ 1	\$ (5)
Loss on sales of discontinued operations		
Acute Care	\$ -	\$ (49)
Other	-	10
Income taxes	-	(11)
Total	\$ -	\$ (50)
Discontinued operations, net of taxes		
Acute Care	\$ 1	\$ (66)
Other	-	11
Total	\$ 1	\$ (55)

(1) No charges for discontinued operations were incurred during 2009.

In 2007, we sold our Distribution Solutions segment's Medical-Surgical Acute Care business to Owens & Minor, Inc. ("OMI") for net cash proceeds of approximately \$160 million. Revenues associated with the Acute Care business prior to its disposition were \$597 million for 2007.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Financial results for 2007 for this discontinued operation include an after-tax loss of \$66 million, which primarily consists of an after-tax loss of \$61 million for the business' disposition and \$5 million of after-tax losses associated with operations, other asset impairment charges and employee severance costs. The after-tax loss of \$61 million for the business' disposition includes a \$79 million non-tax deductible write-off of goodwill, as further described below.

In connection with this divestiture, we allocated a portion of our Distribution Solutions segment's Medical-Surgical Distribution business' goodwill to the Acute Care business as required by SFAS No. 142, "Goodwill and Other Intangible Assets." The allocation was based on the relative fair values of the Acute Care business and the continuing businesses that are being retained by the Company. The fair value of the Acute Care business was determined based on the net cash proceeds resulting from the divestiture. As a result, we allocated \$79 million of the segment's goodwill to the Acute Care business.

Additionally, as part of the divestiture, we entered into a transition services agreement ("TSA") with OMI under which we provided certain services to the Acute Care business during a transition period of approximately six months. Financial results from the TSA, as well as employee severance charges over the transition period, were recorded as part of discontinued operations. The continuing cash flows generated from the TSA were not material to our consolidated financial statements and the TSA was completed as of March 31, 2007.

In the second quarter of 2007, we also sold a wholly-owned subsidiary, Pharmaceutical Buyers Inc., for net cash proceeds of \$10 million. The divestiture resulted in an after-tax gain of \$5 million resulting from the tax basis of the subsidiary exceeding its carrying value. Financial results for this business, which were previously included in our Distribution Solutions segment, were not material to our consolidated financial statements.

The results for discontinued operations for 2007 also include an after-tax gain of \$6 million associated with the collection of a note receivable from a business sold in 2003 and the sale of a small business.

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," financial results for these businesses have been classified as discontinued operations for all periods presented.

8. Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share is computed similar to basic earnings per share except that it reflects the potential dilution that could occur if dilutive securities or other obligations to issue common stock were exercised or converted into common stock.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The computations for basic and diluted earnings per share from continuing and discontinued operations are as follows:

<i>(In millions, except per share amounts)</i>	Years Ended March 31,		
	2009	2008	2007
Income from continuing operations	\$ 823	\$ 989	\$ 968
Discontinued operations, net	-	1	(5)
Discontinued operations – loss on sales, net	-	-	(50)
Net income	<u>\$ 823</u>	<u>\$ 990</u>	<u>\$ 913</u>
Weighted average common shares outstanding:			
Basic	275	291	298
Effect of dilutive securities:			
Options to purchase common stock	3	5	6
Restricted stock	1	2	1
Diluted	<u>279</u>	<u>298</u>	<u>305</u>
Earnings per common share: ⁽¹⁾			
Basic			
Continuing operations	\$ 2.99	\$ 3.40	\$ 3.25
Discontinued operations, net	-	-	(0.02)
Discontinued operations – loss on sales, net	-	-	(0.17)
Total	<u>\$ 2.99</u>	<u>\$ 3.40</u>	<u>\$ 3.06</u>
Diluted			
Continuing operations	\$ 2.95	\$ 3.32	\$ 3.17
Discontinued operations, net	-	-	(0.02)
Discontinued operations – loss on sales, net	-	-	(0.16)
Total	<u>\$ 2.95</u>	<u>\$ 3.32</u>	<u>\$ 2.99</u>

(1) Certain computations may reflect rounding adjustments.

Approximately 5 million, 8 million and 11 million stock options were excluded from the computations of diluted net earnings per share in 2009, 2008 and 2007 as their exercise price was higher than the Company's average stock price.

9. Receivables, net

<i>(In millions)</i>	March 31,	
	2009	2008
Customer accounts	\$ 6,902	\$ 6,390
Other	1,033	984
Total	7,935	7,374
Allowances	(161)	(161)
Net	<u>\$ 7,774</u>	<u>\$ 7,213</u>

The allowances are primarily for uncollectible accounts and sales returns.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

10. Property, Plant and Equipment, Net

<i>(In millions)</i>	March 31,	
	2009	2008
Land	\$ 50	\$ 50
Building, machinery, equipment and other	1,673	1,652
Total property, plant and equipment	1,723	1,702
Accumulated depreciation	(927)	(927)
Property, plant and equipment, net	\$ 796	\$ 775

11. Goodwill and Intangible Assets, Net

Changes in the carrying amount of goodwill were as follows:

<i>(In millions)</i>	Distribution Solutions	Technology Solutions	Total
Balance, March 31, 2007	\$ 1,386	\$ 1,589	\$ 2,975
Goodwill acquired, net of purchase price adjustments	282	59	341
Foreign currency translation adjustments	4	25	29
Balance, March 31, 2008	\$ 1,672	\$ 1,673	\$ 3,345
Goodwill acquired, net of purchase price adjustments	231	35	266
Goodwill written off related to the sale of a business	(24)	-	(24)
Foreign currency translation adjustments and other	(10)	(49)	(59)
Balance, March 31, 2009	\$ 1,869	\$ 1,659	\$ 3,528

Information regarding intangible assets is as follows:

<i>(In millions)</i>	March 31,	
	2009	2008
Customer lists	\$ 824	\$ 725
Technology	187	176
Trademarks and other	70	61
Gross intangibles	1,081	962
Accumulated amortization	(420)	(301)
Intangible assets, net	\$ 661	\$ 661

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Amortization expense of intangible assets was \$128 million, \$107 million and \$53 million for 2009, 2008 and 2007. The weighted average remaining amortization periods for customer lists, technology, trademarks and other intangible assets at March 31, 2009 were: 7 years, 3 years and 7 years. Estimated annual amortization expense of these assets is as follows: \$119 million, \$111 million, \$105 million, \$86 million and \$74 million for 2010 through 2014, and \$166 million thereafter. At March 31, 2008, there was an immaterial amount of intangible assets not subject to amortization. All intangible assets were subject to amortization as of March 31, 2009.

12. Long-Term Debt and Other Financing

<i>(In millions)</i>	March 31,	
	2009	2008
9.13% Series C Senior Notes due February, 2010	\$ 215	\$ 215
7.75% Notes due February, 2012	399	399
5.25% Notes due March, 2013	499	498
6.50% Notes due February, 2014	350	-
5.70% Notes due March, 2017	499	499
7.50% Notes due February, 2019	349	-
7.65% Debentures due March, 2027	175	175
ESOP related debt (see Financial Note 13)	1	4
Other	22	7
Total debt	2,509	1,797
Less current portion	(219)	(2)
Total long-term debt	\$ 2,290	\$ 1,795

Long-Term Debt

On February 12, 2009, we issued 6.50% notes due February 15, 2014 (the “2014 Notes”) in an aggregate principal amount of \$350 million and 7.50% notes due February 15, 2019 (the “2019 Notes”) in an aggregate principal amount of \$350 million. Interest is payable on February 15 and August 15 of each year beginning on August 15, 2009. The 2014 Notes will mature on February 15, 2014 and the 2019 Notes will mature on February 15, 2019. We utilized net proceeds, after offering expenses, of \$693 million from the issuance of the 2014 Notes and 2019 Notes for general corporate purposes.

On March 5, 2007, we issued 5.25% notes due March 1, 2013 (the “2013 Notes”) in an aggregate principal amount of \$500 million and 5.70% notes due March 1, 2017 (the “2017 Notes,” collectively with the 2013 Notes, 2014 Notes, 2019 Notes, the “Notes” and each note constitutes a “Series”) in an aggregate principal amount of \$500 million for which interest is payable on March 1 and September 1 of each year. The 2013 Notes will mature on March 1, 2013 and the 2017 Notes will mature on March 1, 2017. We utilized net proceeds, after offering expenses, of \$990 million from the issuance of the 2013 Notes and 2017 Notes, together with cash on hand, to repay outstanding interim indebtedness related to our January 2007 acquisition of Per-Se.

Each Series constitutes an unsecured and unsubordinated obligation of the Company and ranks equally with all of the Company’s existing and future unsecured and unsubordinated indebtedness outstanding from time to time. Each Series is governed by an indenture common to all Notes and an officers’ certificate specifying certain terms of each Series.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Upon 30 days notice to holders of a Series, we may redeem that Series at any time prior to maturity, in whole or in part, for cash at redemption prices that include accrued and unpaid interest and a make-whole premium, as specified in the indenture and officers' certificate relating to that Series. In the event of the occurrence of both (1) a change of control of the Company and (2) a downgrade of a Series below an investment grade rating by each of Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Ratings Services within a specified period, an offer will be made to purchase that Series from the holders at a price in cash equal to 101% of the then outstanding principal amount of that Series, plus accrued and unpaid interest to, but not including, the date of repurchase. The indenture and the related officers' certificate for each Series, subject to the exceptions and in compliance with the conditions as applicable, specify that we may not incur liens, enter into sale and leaseback transactions or consolidate, merge or sell all or substantially all of our assets. The indentures also contain customary events and default provisions.

Accounts Receivable Sales Facility

In June 2008, we renewed our accounts receivable sales facility under substantially similar terms to those previously in place, except that we increased the committed balance from \$700 million to \$1.0 billion. The renewed facility expires in June 2009. We anticipate renewing this facility before its expiration.

Information regarding our outstanding balances related to our interests in accounts receivable sold or qualifying receivables retained is as follows:

<i>(In millions)</i>	March 31, 2009	March 31, 2008
Receivables sold outstanding ⁽¹⁾	\$ -	\$ -
Receivables retained, net of allowance for doubtful accounts	4,814	4,251

(1) Deducted from receivables, net in the consolidated balance sheets.

The following table summarizes the activity related to our interests in accounts receivable sold:

<i>(In millions)</i>	Years Ended March 31,		
	2009	2008	2007
Proceeds from accounts receivable sales	\$ 5,780	\$ 1,075	\$ -
Fees and charges ^{(1) (2)}	10	2	-

(1) Recorded in operating expenses in the consolidated statements of operations.

(2) Fee charges related to the sale of receivables to the Conduits for 2007 were not material.

The delinquency ratio for the qualifying receivables represented less than 1% of the total qualifying receivables as of March 31, 2009 and March 31, 2008.

Revolving Credit Facility

We have a \$1.3 billion five-year, senior unsecured revolving credit facility which expires in June 2012. Borrowings under this credit facility bear interest based upon either a Prime rate or the London Interbank Offering Rate. Total borrowings under this facility were \$279 million for 2009. There were no borrowings for 2008. As of March 31, 2009 and 2008, there were no amounts outstanding under this facility.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

In January 2007, we entered into a \$1.8 billion interim credit facility. The interim credit facility was a single-draw 364-day unsecured facility with terms substantially similar to those contained in the Company's existing revolving credit facility. We utilized \$1.0 billion of this facility to fund a portion of our purchase of Per-Se.

Commercial Paper

We issued and repaid approximately \$3.3 billion and \$260 million in commercial paper during 2009 and 2008. There were no commercial paper issuances outstanding at March 31, 2009 and 2008.

Employee Stock Ownership Program

The employee stock ownership program ("ESOP") debt bears interest at an 8.6% fixed rate and is due in semi-annual installments through June 2010.

Debt Covenants

Our various borrowing facilities and certain long-term debt instruments are subject to covenants. Our principal debt covenant is our debt to capital ratio, which cannot exceed 56.5%. If we exceed this ratio, repayment of debt outstanding under the revolving credit facility and \$215 million of term debt could be accelerated. At March 31, 2009, this ratio was 28.9% and we were in compliance with all other covenants.

13. Pension Benefits

We maintain a number of qualified and nonqualified defined pension benefit plans and defined contribution plans for eligible employees.

Defined Pension Benefit Plans

Eligible U.S. employees who were employed by the Company prior to December 31, 1996 are covered under the Company-sponsored defined benefit retirement plan. In 1997, we amended this plan to freeze all plan benefits based on each employee's plan compensation and creditable service accrued to that date. The Company has made no annual contributions since this plan was frozen. The benefits for this defined benefit retirement plan are based primarily on age of employees at date of retirement, years of service and employees' pay during the five years prior to retirement. We also have defined benefit pension plans for eligible Canadian and United Kingdom employees as well as a nonqualified supplemental defined benefit plan for certain U.S. executives, which is non-funded. We also assumed a frozen qualified defined benefit plan through our acquisition of Per-Se in 2007. The Per-Se plan was merged into our retirement plan in 2008. We adopted the measurement provisions of SFAS No. 158 in the fourth quarter of 2009. As required, our defined benefit plan assets and obligations are now measured as of the Company's fiscal year-end. We previously performed this measurement at December 31.

The net periodic expense for our pension plans is as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2009	2008	2007
Service cost—benefits earned during the year	\$ 6	\$ 7	\$ 7
Interest cost on projected benefit obligation	33	31	27
Expected return on assets	(39)	(39)	(33)
Amortization of unrecognized actuarial loss, prior service costs and net transitional obligation	10	11	12
Settlement charges and other	1	4	4
Net periodic pension expense	\$ 11	\$ 14	\$ 17

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The projected unit credit method is utilized for measuring net periodic pension expense over the employees' service life for the U.S. pension plans. Unrecognized actuarial losses exceeding 10% of the greater of the projected benefit obligation and the market value of assets are amortized straight-line over the average remaining future service periods.

Information regarding the changes in benefit obligations and plan assets for our pension plans is as follows:

<i>(In millions)</i>	15 Month Period Ending March 31, 2009	12 Month Period Ending December 31, 2007
Change in benefit obligations		
Benefit obligation at beginning of period	\$ 543	\$ 552
SFAS No. 158 measurement date adjustment	(3)	-
Service cost	6	7
Interest cost	33	31
Actuarial gains	(65)	(8)
Benefit payments	(32)	(47)
Foreign exchange impact and other	(26)	8
Benefit obligation at end of period	<u>\$ 456</u>	<u>\$ 543</u>
Change in plan assets		
Fair value of plan assets at beginning of period	\$ 501	\$ 484
SFAS No. 158 measurement date adjustment	(9)	-
Actual return on plan assets	(138)	29
Employer and participant contributions	15	33
Benefits paid	(32)	(47)
Foreign exchange impact and other	(28)	2
Fair value of plan assets at end of period	<u>\$ 309</u>	<u>\$ 501</u>
Funded status at end of period ⁽¹⁾	\$ (147)	\$ (39)
Amounts recognized on the balance sheet		
Noncurrent assets	\$ 5	\$ 78
Current liabilities	(10)	(9)
Noncurrent liabilities	(142)	(108)
Total	<u>\$ (147)</u>	<u>\$ (39)</u>

(1) Includes \$3 million of employer contributions subsequent to our December 31, 2007 measurement date for 2008.

The unfavorable change in the funded status of our plans from March 31, 2008 to March 31, 2009 was primarily due to the decrease in the fair value of our plan assets as a result of the volatility in the financial markets.

The accumulated benefit obligations for our pension plans were \$441 million at March 31, 2009 and \$522 million at March 31, 2008. The components of the amount recognized in accumulated other comprehensive income at March 31, 2009 and 2008 are as follows: net actuarial loss, \$215 million and \$111 million; net prior service cost, \$8 million and \$10 million; and net transitional obligations, \$1 million and \$2 million.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

We estimate that we will amortize \$2 million of prior service cost and \$22 million of actuarial loss for the pension plans from shareholders' equity to pension expense in 2010. Comparable 2009 amounts were \$2 million and \$8 million.

Projected benefit obligations relating to our unfunded U.S. plans were \$110 million and \$112 million at March 31, 2009 and 2008. Pension costs are funded based on the recommendations of independent actuaries.

Expected benefit payments for our pension plans are as follows: \$38 million, \$35 million, \$38 million, \$31 million and \$31 million for 2010 to 2014, and \$262 million for 2015 through 2019. Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service. Expected contributions to be made for our pension plans are \$17 million for 2010.

Should the financial markets continue to deteriorate, the decline in fair value of the plan assets may result in increased total pension costs in the future and may also result in additional future cash contributions in accordance with the U.S. Pension Protection Act of 2006 or other international retirement plan funding requirements. We currently do not expect additional cash contributions to be material.

Weighted average asset allocations of the investment portfolio for our pension plans at March 31 and target allocations are as follows:

	Target Allocation	Percentage of Fair Value of Total Plan Assets	
		2009	2008
Assets Category			
Equity securities	59%	52%	56%
Fixed income	33%	36%	35%
Other	8%	12%	9%
Total	100%	100%	100%

We develop our expected long-term rate of return assumption based on the historical experience of our portfolio and the review of projected returns by asset class on broad, publicly traded equity and fixed-income indices. Our target asset allocation was determined based on the risk tolerance characteristics of the plan and, at times, may be adjusted to achieve our overall investment objective.

Weighted-average assumptions used to estimate the net periodic pension expense and the actuarial present value of benefit obligations were as follows:

	2009	2008	2007
Net periodic pension expense			
Discount rates	5.34%	5.33%	5.35%
Rate of increase in compensation	3.93	3.85	3.83
Expected long-term rate of return on plan assets	7.75	7.53	7.47
Benefit obligation			
Discount rates	7.74%	6.18%	5.70%
Rate of increase in compensation	3.93	4.01	3.97
Expected long-term rate of return on plan assets	7.90	8.04	8.09

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

McKesson's U.S. defined benefit pension plans use a discount rate based on a yield curve approach. We use a portfolio of high quality corporate bonds rated AA or better whose maturity is timed with the expected payments of our plans. For March 31, 2009, we used a discount rate of 7.95% which represents an increase of 162 basis points from our 2008 discount rate of 6.33%.

Sensitivity to changes in the weighted-average discount rate for our U. S. pension plans is as follows:

<i>(In millions)</i>	Percentage Point Change	Projected Benefit Obligation	Expense
	+/- 1.0 pt	(27)/31	(2)/2

Other Defined Benefit Plans

Under various U.S. bargaining unit labor contracts, we make payments into multi-employer pension plans established for union employees. We are liable for a proportionate part of the plans' unfunded vested benefit liabilities upon our withdrawal from the plan, however information regarding the relative position of each employer with respect to the actuarial present value of accumulated benefits and net assets available for benefits is not available. Contributions to the plans and amounts accrued were not material for the years ended March 31, 2009, 2008 and 2007.

Defined Contribution Plans

We have a contributory profit sharing investment plan ("PSIP") for U.S. employees not covered by collective bargaining arrangements. Eligible employees may contribute to the PSIP up to 20% of their monthly eligible compensation for pre-tax contributions and up to 67% of compensation for catch-up contributions not to exceed IRS limits. The Company makes matching contributions in an amount equal to 100% of the employee's first 3% of pay contributed and 50% for the next 2% of pay contributed. The Company also may make an additional annual matching contribution for each plan year to enable participants to receive a full match based on their annual limit, effective 2008. Prior to 2009, the Company provided for the PSIP contributions primarily with its common shares through its leveraged ESOP.

The ESOP has purchased an aggregate of 24 million shares of the Company's common stock since its inception. These purchases were financed by 10 to 20 year loans from or guaranteed by us. At March 31, 2009, the ESOP's outstanding borrowing is reported as short-term debt of the Company and the related receivables from the ESOP are shown as a reduction of stockholders' equity. The loans are repaid by the ESOP from interest earnings on cash balances and common dividends on unallocated shares and Company cash contributions. The ESOP loan maturities and rates are identical to the terms of related Company borrowings. Stock is made available from the ESOP based on debt service payments on ESOP borrowings. ESOP expense and other contribution expense, including interest expense on ESOP debt, was \$53 million, \$13 million and \$13 million in 2009, 2008 and 2007. ESOP expense for 2008 and 2007 was significantly lower than 2009 due to the utilization of lower cost basis shares in the ESOP to fund the Company's matching contributions. Approximately 1 million shares of common stock were allocated to plan participants in 2008 and 2007. In 2009, the Company made contributions primarily in cash or with the issuance of treasury shares. At March 31, 2009, substantially all of the 24 million common shares had been allocated to plan participants. As a result, we will need to fund most of our future PSIP contributions with cash or treasury shares.

As previously reported on the PSIP's Annual Report on Form 11-K for the year ended March 31, 2008, the PSIP is a member of the settlement class in the Consolidated Securities Litigation Action (refer to Financial Note 18, "Other Commitments and Contingent Liabilities," to the consolidated financial statements appearing in this Annual Report on Form 10-K). On April 27, 2009, the court issued an order approving the distribution of the settlement funds. At this time, we do not know the date on which the distribution of settlement funds to the PSIP will occur.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

14. Postretirement Benefits

We maintain a number of postretirement benefits, primarily consisting of healthcare and life insurance (“welfare”) benefits, for certain eligible U.S. employees. Eligible employees consist of those who retired before March 31, 1999 and those who retired after March 31, 1999, but were an active employee as of that date, after meeting other age-related criteria. We also provide postretirement benefits for certain U.S. executives. We adopted the measurement provisions of SFAS No. 158 in the fourth quarter of 2009. As required, our defined benefit plan obligations are now measured as of the Company’s fiscal year-end. We previously performed this measurement at December 31.

The net periodic expense for our postretirement welfare benefits is as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2009	2008	2007
Service cost—benefits earned during the year	\$ 1	\$ 2	\$ 2
Interest cost on projected benefit obligation	10	10	11
Amortization of unrecognized actuarial loss (gain) and prior service costs	(14)	4	16
Net periodic postretirement expense	\$ (3)	\$ 16	\$ 29

Information regarding the changes in benefit obligations for our postretirement welfare plans is as follows:

<i>(In millions)</i>	15 Month Period Ending March 31, 2009	12 Month Period Ending December 31, 2007
Change in benefit obligations		
Benefit obligation at beginning of period	\$ 157	\$ 183
SFAS No. 158 measurement date adjustment	3	-
Service cost	1	2
Interest cost	10	10
Plan amendments and other	6	5
Actuarial gain	(30)	(27)
Benefit payments	(14)	(16)
Benefit obligation at end of period	\$ 133	\$ 157

We estimate that we will amortize \$24 million of actuarial gain for the other postretirement plans from shareholders’ equity to other postretirement expense in 2010. The comparable 2009 amount was \$13 million of actuarial gain. The increase in this benefit is primarily due to favorable healthcare cost trends.

Other postretirement benefits are funded as claims are paid. Expected benefit payments for our postretirement welfare benefit plans, net of expected Medicare subsidy receipts of \$16 million, are as follows: \$15 million annually for 2010 to 2014, and \$67 million cumulatively for 2015 through 2019. Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service. Expected contributions to be made for our postretirement welfare benefit plans are \$15 million for 2010.

Weighted-average discount rates used to estimate postretirement welfare benefit expenses were 6.19%, 5.78% and 5.55% for 2009, 2008 and 2007. Weighted-average discount rates for the actuarial present value of benefit obligations were 7.86%, 6.19% and 5.78% for 2009, 2008 and 2007.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Actuarial gain or loss for the postretirement welfare benefit plan is amortized to income over a three-year period. The assumed healthcare cost trends used in measuring the accumulated postretirement benefit obligation were 9% and 10% for prescription drugs, 7% and 9% for medical and 6% and 7% for dental in 2009 and 2008. The healthcare cost trend rate assumption has a significant effect on the amounts reported. For 2009, 2008 and 2007, a one-percentage-point increase or a one-percentage-point decrease in the assumed healthcare cost trend rate would impact total service and interest cost components by approximately \$1 million to \$2 million and the postretirement benefit obligation by approximately \$12 million to \$15 million.

15. Financial Instruments and Hedging Activities

At March 31, 2009 and 2008, the carrying amounts of cash and cash equivalents, restricted cash, marketable securities, receivables, drafts and accounts payable and other current liabilities approximated their estimated fair values because of the short maturity of these financial instruments. The carrying amounts and estimated fair values of our long-term debt were \$2,509 million and \$2,545 million at March 31, 2009 and \$1,797 million and \$1,861 million at March 31, 2008. The estimated fair value of our long-term debt was determined based on quoted market prices and may not be representative of actual values that could have been realized or that will be realized in the future.

In the normal course of business, we are exposed to interest rate changes and foreign currency fluctuations. We limit these risks through the use of derivatives such as interest rate swaps and forward contracts. In accordance with our policy, derivatives are only used for hedging purposes. We do not use derivatives for trading or speculative purposes. The volume of activity related to derivative financial instruments was not material for 2009, 2008 and 2007.

16. Lease Obligations

We lease facilities and equipment primarily under operating leases. At March 31, 2009, future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year for years ending March 31 are:

<i>(In millions)</i>	Noncancelable Operating Leases
2010	\$ 105
2011	90
2012	72
2013	48
2014	33
Thereafter	79
Total minimum lease payments	\$ 427

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Rental expense under operating leases was \$146 million, \$149 million and \$117 million in 2009, 2008 and 2007. We recognize rent expense on a straight-line basis over the term of the lease, taking into account, when applicable, lessor incentives for tenant improvements, periods where no rent payment is required and escalations in rent payments over the term of the lease. Deferred rent is recognized for the difference between the rent expense recognized on a straight-line basis and the payments made per the terms of the lease. Most real property leases contain renewal options and provisions requiring us to pay property taxes and operating expenses in excess of base period amounts. Sublease rental income was not material for any period presented.

17. Financial Guarantees and Warranties*Financial Guarantees*

We have agreements with certain of our customers' financial institutions under which we have guaranteed the repurchase of inventory (primarily for our Canadian business) at a discount in the event these customers are unable to meet certain obligations to those financial institutions. Among other requirements, these inventories must be in resalable condition. The inventory repurchase agreements mostly range from one to two years. Customer guarantees range from one to five years and were primarily provided to facilitate financing for certain customers. The majority of our other customer guarantees are secured by certain assets of the customer. We also have an agreement with one software customer that, under limited circumstances, may require us to secure standby financing. Because the amount of the standby financing is not explicitly stated, the overall amount of these guarantees cannot reasonably be estimated. At March 31, 2009, the maximum amounts of inventory repurchase guarantees and other customer guarantees were \$102 million and \$10 million, none of which had been accrued.

At March 31, 2009, we had commitments of \$2 million of cash contributions to our equity-held investments, for which no amounts had been accrued.

The expirations of the above noted financial guarantees and commitments are as follows: \$51 million, \$23 million, \$1 million, \$1 million and nil from 2010 through 2014 and \$38 million thereafter.

In addition, our banks and insurance companies have issued \$115 million of standby letters of credit and surety bonds on our behalf mostly in order to meet the security requirements for statutory licenses and permits, court and fiduciary obligations and our workers' compensation and automotive liability programs.

Our software license agreements generally include certain provisions for indemnifying customers against liabilities if our software products infringe a third party's intellectual property rights. To date, we have not incurred any material costs as a result of such indemnification agreements and have not accrued any liabilities related to such obligations.

In conjunction with certain transactions, primarily divestitures, we may provide routine indemnification agreements (such as retention of previously existing environmental, tax and employee liabilities) whose terms vary in duration and often are not explicitly defined. Where appropriate, obligations for such indemnifications are recorded as liabilities. Because the amounts of these indemnification obligations often are not explicitly stated, the overall maximum amount of these commitments cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of divestiture, we have historically not made significant payments as a result of these indemnification provisions.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***Warranties*

In the normal course of business, we provide certain warranties and indemnification protection for our products and services. For example, we provide warranties that the pharmaceutical and medical-surgical products we distribute are in compliance with the Food, Drug and Cosmetic Act and other applicable laws and regulations. We have received the same warranties from our suppliers, which customarily are the manufacturers of the products. In addition, we have indemnity obligations to our customers for these products, which have also been provided to us from our suppliers, either through express agreement or by operation of law.

We also provide warranties regarding the performance of software and automation products we sell. Our liability under these warranties is to bring the product into compliance with previously agreed upon specifications. For software products, this may result in additional project costs, which are reflected in our estimates used for the percentage-of-completion method of accounting for software installation services within these contracts. In addition, most of our customers who purchase our software and automation products also purchase annual maintenance agreements. Revenue from these maintenance agreements is recognized on a straight-line basis over the contract period and the cost of servicing product warranties is charged to expense when claims become estimable. Accrued warranty costs were not material to the consolidated balance sheets.

18. Other Commitments and Contingent Liabilities

In addition to commitments and obligations in the ordinary course of business, we are subject to various claims, other pending and potential legal actions for damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of our business. In accordance with SFAS No. 5, "Accounting for Contingencies," we record a provision for a liability when management believes that it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We believe we have adequate provisions for any such matters. Management reviews these provisions at least quarterly and adjusts these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Because litigation outcomes are inherently unpredictable, these assessments often involve a series of complex assessments by management about future events and can rely heavily on estimates and assumptions.

We are party to the significant legal proceedings described below. Based on our experience, we believe that any damage amounts claimed in the specific matters discussed below are not meaningful indicators of our potential liability. We believe that we have valid defenses to these legal proceedings and are defending the matters vigorously. Nevertheless, the outcome of any litigation is inherently uncertain. We are currently unable to estimate the remaining possible losses in the unresolved legal proceedings described below. Should any one of these proceedings against us, or a combination of more than one, be successful or should we determine to settle any or a combination of these matters on unfavorable terms, we may be required to pay substantial sums, become subject to the entry of an injunction or be forced to change the manner in which we operate our business, which could have a material adverse impact on our financial position or results of operations.

I. Accounting Litigation

Following the announcements by McKesson in April, May and July of 1999 that McKesson had determined that certain software sales transactions in its Information Solutions segment, formerly HBO & Company ("HBOC") and now known as McKesson Information Solutions LLC, were improperly recorded as revenue and reversed, numerous lawsuits were filed against McKesson, HBOC, certain of McKesson's or HBOC's current or former officers or directors, and other defendants. Although almost all of these cases (collectively "the Securities Litigation") have now been resolved, certain matters remain pending as more fully described below. On January 12, 2005, we announced that we reached an agreement to settle the previously-reported action in the Northern District of California captioned: *In re McKesson HBOC, Inc. Securities Litigation*, (No. C-99-20743 RMW) (the "Consolidated Securities Litigation Action").

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

The two remaining matters are *Holcombe T. Green and HTG Corp. v. McKesson Corporation, et al.* (Georgia State Court, Fulton County, Case No. 06-VS-096767-D) and *Hall Family Investments, L.P. v. McKesson Corporation, et al.* (Georgia State Court, Fulton County, Case No. 06-VS-096763-F). Plaintiffs allege fraud and deceit; additionally, plaintiff Green seeks indemnification in connection with a class action lawsuit, now settled, which was filed on behalf of participants in the McKesson Corporation Profit Sharing Investment Plan against McKesson Corporation and Green, among others, and for other unspecified losses. Plaintiffs seek actual and punitive damages, attorneys' fees and costs of suit in amounts unspecified in the complaint. The Company and HBOC have answered the complaints in each of these actions, generally denying the allegations and any liability to plaintiffs. In April 2007, we filed motions to disqualify the Green and Hall Family Investments, L.P. damages experts, who had opined that plaintiffs incurred approximately \$150 million in actual damages, and for summary judgment. On December 13, 2007, the trial judge denied those motions. On January 3, 2008, following certification by the trial court of an appeal from her rulings on the disqualification and summary judgment motions, we applied to the Georgia Court of Appeals, seeking acceptance of an interlocutory appeal from the trial court rulings and on January 29, 2008, the Court of Appeals granted that application. Our appeal has been fully briefed and was argued to a three judge panel of the Court of Appeals on February 12, 2009, but no decision has yet been rendered.

II. Average Wholesale Price Litigation

The following matters involve a drug reimbursement benchmark referred to as the AWP utilized by some public and private payors to calculate at least some portion of the amount a pharmacy will be reimbursed for dispensing a covered branded drug.

Private Payor RICO and Antitrust Actions

On June 2, 2005, a civil class action complaint was filed against the Company in the United States District Court, District of Massachusetts, *New England Carpenters Health Benefits Fund, et al. v. First DataBank, Inc. and McKesson Corporation*, (Civil Action No. 1:05-CV-11148-PBS) (the "*Private Payor RICO Action*"). Plaintiffs are four health benefit plans. The complaint alleges that in late 2001 and early 2002 the Company and co-defendant First DataBank, Inc. ("FDB") conspired to improperly raise the published AWP of certain prescription drugs and that this alleged conduct resulted in higher drug reimbursement payments by plaintiffs and others similarly situated. Plaintiffs purport to represent a class of third party payors and consumers who paid any portion of the price of certain prescription drugs to the extent their portion was based upon the AWP published by FDB during the period January 1, 2002 to March 15, 2005.

The complaint purports to state claims against the Company based on the federal Racketeer Influenced and Corrupt Organizations Act ("RICO," 18 U.S.C. § 1962(c); California's Business and Professions Code §§ 17200 and 17500 and common law civil conspiracy. The complaint also alleges two additional claims against defendant FDB only for violation of California's Consumers Legal Remedies Act, California Civil Code § 1750 and for common law negligent misrepresentation. Plaintiffs seek injunctive relief, as well as compensatory and treble damages, attorneys' fees and costs.

On July 21, 2006, the plaintiffs filed a First Amended Complaint ("FAC,") asserting essentially the same claims against the Company and adding an additional named plaintiff. The FAC also included an alternative count under the consumer protection statutes of numerous states if the court determined that California law was not applicable to the entire class. The FAC modified the definition of the alleged class to include third party payors (but not consumers) whose pharmaceutical payments for certain prescription drugs were based upon AWP (not limited to the AWP published by FDB) during the time period August 1, 2001 to March 15, 2005.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

On November 30, 2006, plaintiffs filed a Second Amended Complaint (“SAC”) which added a class of consumers that made percentage co-payments in addition to the third party payor class (“consumer co-pay class”). In addition, the SAC added a claim under California Civil Code § 3345 for treble damages for unfair practices. On November 6, 2007, plaintiffs filed a Third Amended Complaint (“TAC”) largely repeating the allegations of the SAC and adding a new class of uninsured consumers who paid usual and customary (“U&C”) prices for the prescription drugs at issue in the case (“U&C class”). The TAC asserts the same claims asserted in the SAC on behalf of the third party payor class, the consumer co-pay class and the U&C class, with the exception that the claims of the U&C class are alleged to run through the present.

On March 19, 2008, the district court denied McKesson’s motion to dismiss and for judgment on the pleadings with respect to the RICO claims asserted in the TAC. On May 1, 2008, McKesson answered the TAC, denying the core factual allegations and asserting numerous affirmative defenses.

Also on March 19, 2008, the district court entered an order certifying the consumer co-pay class for all purposes for the period August 1, 2001 to May 15, 2005, certifying the third party payor class for liability and equitable relief for the period from August 1, 2001 to May 15, 2005 and certifying the third party payor class for damages for the period August 1, 2001 to December 31, 2003. This order supplanted an earlier order of the court which denied, without prejudice, plaintiffs’ motion to certify a damages class for the third party payor class.

On April 2, 2008, McKesson petitioned the First Circuit Court of Appeals to allow immediate appeal of the district court’s March 19 class certification order. On May 16, 2008, the First Circuit denied the petition for leave to appeal.

On December 10, 2007, the same plaintiffs named in the TAC in the *Private Payor RICO Action* filed a separate civil class action complaint under federal and state antitrust laws against the Company in the United States District Court, District of Massachusetts, *New England Carpenters Health Benefits Fund, et al. v. McKesson Corporation*, (Civil Action No. 1:07-CV-12277-PBS) (the “*Antitrust Action*”). The *Antitrust Action* purports to be brought on behalf of the same classes and is based on the same set of operative facts as the *Private Payor RICO Action*.

The complaint purports to state claims against the Company for violation of the Sherman Act, 15 U.S.C. § 1, California Business & Professions Code § 16700 *et seq.*, and antitrust laws for indirect purchasers for the States of Arizona, Hawaii, Iowa, Kansas, Maine, Michigan, Minnesota, Mississippi, Nebraska, Nevada, New Mexico, New York, North Carolina, North Dakota, South Dakota, Tennessee, Vermont, West Virginia and Wisconsin and the District of Columbia. The complaint seeks declaratory relief, as well as compensatory and treble damages, attorneys’ fees and costs.

McKesson moved to dismiss the complaint in the *Antitrust Action* on January 31, 2008. On August 26, 2008, the court granted McKesson’s motion to dismiss the complaint, without leave to amend, and terminated the action. No appeal was filed.

On November 21, 2008, the Company announced that it had reached an agreement with plaintiffs to pay \$350 million in settlement of all claims on behalf of the three private payor classes alleged in the *Private Payor RICO Action* relating to FDB’s published AWP, along with the claims brought by these same private payors alleged in the *Antitrust Action*. The Company also announced on November 21 that it recorded a reserve of \$143 million for pending and expected claims by public payor entities relating to FDB’s published AWP. As a result, in the third quarter of 2009, we recorded a \$493 million pre-tax charge. The private payor settlement provides that the Company will pay \$350 million into a settlement escrow in installments following preliminary and final approvals of the settlement, which escrow account shall be used for settlement administration costs, including notice, attorneys’ fees as approved by the court and distribution to class members in a manner determined by plaintiffs subject to court approval. To date, approximately \$55 million has been paid by the Company into the settlement escrow and the balance of the \$350 million will be due and owing 45 days following final approval of the settlement by the trial court. Accordingly, \$350 million is recorded in current liabilities on our consolidated balance sheet at March 31, 2009. The settlement also provides that the certified settlement classes will release all claims against the Company relating to FDB’s published AWP, whenever such claims were incurred. On March 5, 2009, the court gave preliminary approval to the amended settlement and scheduled a fairness hearing for July 23, 2009, at which time final approval will be considered.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***The Public Payor AWP Cases*

Commencing in May of 2008, a series of complaints alleging claims nearly identical to the *Private Payor RICO* and *Antitrust Actions* were filed by various public payors – governmental entities who paid any portion of the price of certain prescription drugs. These actions were all filed in the United States District Court for the District of Massachusetts and were ultimately consolidated under the caption “*In re McKesson Governmental Entities Average Wholesale Price Litigation*.” The public payor actions are assigned to the same court assigned to the related claims of private payors. A description of these actions is as follows:

The San Francisco Action

On May 20, 2008, an action was filed by the San Francisco Health Plan on behalf of itself and a purported class of political subdivisions in the State of California and by the San Francisco City Attorney on behalf of the “People of the State of California” in the United States District Court for the District of Massachusetts against the Company as the sole defendant, alleging violations of civil RICO, the California Cartwright Act, California’s false claims act, California Business and Professions Code §§ 17200 and 17500 and seeking damages, treble damages, civil penalties, restitution, interest and attorneys’ fees, all in unspecified amounts, *San Francisco Health Plan, et al. v. McKesson Corporation*, (Civil Action No. 1:08-CV-10843-PBS) (“*San Francisco Action*”). On July 3, 2008, an amended complaint was filed in the *San Francisco Action* adding a claim for tortious interference. On January 13, 2009, a second amended complaint was filed in the *San Francisco Action* that abandoned all previously alleged antitrust claims.

The Connecticut Action

On May 28, 2008, an action was filed by the State of Connecticut in the United States District Court for the District of Massachusetts against the Company, again as the sole defendant, alleging violations of civil RICO, the Sherman Act and the Connecticut Unfair Trade Practices Act and seeking damages, treble damages, restitution, interest and attorneys’ fees, all in unspecified amounts, *State of Connecticut v. McKesson Corporation*, (Civil Action No. 1:08-CV-10900-PBS) (“*Connecticut Action*”). On January 13, 2009, an amended complaint was filed in the *Connecticut Action* abandoning all previously alleged antitrust claims.

The Douglas County, Kansas Nationwide Class Action

On August 7, 2008, an action was filed in the United States District Court for the District of Massachusetts by the Board of County Commissioners of Douglas County, Kansas on behalf of itself and a purported national class of state, local and territorial governmental entities against the Company and FDB alleging violations of civil RICO and federal antitrust laws and seeking damages and treble damages, as well as injunctive relief, interest, attorneys’ fees and costs of suit, all in unspecified amounts, *Board of County Commissioners of Douglas County, Kansas v. McKesson Corporation, et al.*, (Civil Action No. 1:08-CV-11349-PBS) (“*Douglas County, Kansas Action*”).

Separate class actions based on essentially the same factual allegations were subsequently filed against the Company and FDB in the United States District Court for the District of Massachusetts by the City of Panama City, Florida on August 18, 2008 (“*Florida Action*”), the State of Oklahoma on October 15, 2008 (“*Oklahoma Action*”), the County of Anoka, Minnesota on November 3, 2008 (“*Minnesota Action*”), Baltimore, Maryland on November 7, 2008 (“*Maryland Action*”), Columbia, South Carolina on December 12, 2008 (“*South Carolina Action*”) and Goldsboro, North Carolina on December 15, 2008 (“*North Carolina Action*”) in each case on behalf of the filing entity and a class of state and local governmental entities within the same state, alleging violations of civil RICO, federal and state antitrust laws and various state consumer protection and deceptive and unfair trade practices statutes, and seeking damages and treble damages, civil penalties, as well as injunctive relief, interest, attorneys’ fees and costs of suit, all in unspecified amounts.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

On December 24, 2008, an amended and consolidated class action complaint was filed in the *Douglas County, Kansas Action*. The amended complaint added the named plaintiffs from the *Florida, Oklahoma, Minnesota, Maryland, South Carolina and North Carolina Actions* and abandoned the previously alleged antitrust claims. On January 9, 2009, the *Florida, Oklahoma, Minnesota, Maryland, South Carolina and North Carolina Actions* were voluntarily dismissed without prejudice. On March 3, 2009, a second amended and consolidated class action complaint was filed in the *Douglas County, Kansas Action*, adding the state of Montana as a plaintiff, adding Montana state law claims and adding a claim for tortious interference.

On February 10, 2009, plaintiffs in the *Douglas County, Kansas Action* filed a notice of dismissal without prejudice of defendant FDB. On April 2, 2009, the Company filed Answers to each of the pending complaints in the *San Francisco Action*, the *Connecticut Action* and the *County of Douglas, Kansas Action* denying the core factual allegations and asserting numerous affirmative defenses. On April 9, 2009, the Company filed a demand for a jury in each of these actions.

On March 11, 2009, the court set a discovery cut-off in all of the consolidated actions of October 30, 2009, a class certification hearing in the *Douglas County, Kansas* and *San Francisco Actions* of February 10, 2010 and trial in the *Connecticut Action* for July 19, 2010. No trial date is set in the *San Francisco* and *Douglas County, Kansas Actions*. The parties are currently engaged in discovery.

The New Jersey United States' Attorney's Office AWP Investigation

In June of 2007, the Company was informed that a *qui tam* action by an unknown relator was previously filed in the United States District Court in the District of New Jersey, purportedly on behalf of the United States, twelve states (California, Delaware, Florida, Hawaii, Illinois, Louisiana, Massachusetts, Nevada, New Mexico, Tennessee, Texas and Virginia) and the District of Columbia against the Company and seven other defendants. The Company has not been provided with the original complaint, which was filed in 2005, and does not know the identity of the original parties to the action. The Company was advised that the United States and the various states are considering whether to intervene in the suit, but none has done so to date. The suit thus remains under seal and has not been served on the Company.

In January 2009, the Company was provided with a courtesy copy of a third amended complaint filed in the *qui tam* action. This complaint has also not been served on the Company. The third amended complaint alleges multiple claims against the Company under the federal False Claims Act and the various states' and District of Columbia's false claims statutes. These and additional claims are also alleged against other parties. The claims arise out of alleged manipulation of AWP by defendants which plaintiffs claim caused them to pay more than they should have in reimbursement for prescription drugs covered by various government programs that base reimbursement payments on AWP. The complaint is brought on behalf of the United States, the twelve states named above, ten additional states (Georgia, Indiana, Michigan, Montana, New Hampshire, New Jersey, New York, Oklahoma, Rhode Island and Wisconsin) and the District of Columbia and seeks damages including treble damages and civil penalties (which the relator claims would be several billion dollars) as provided under the various False Claims Act statutes, as well as attorneys' fees and costs.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***III. Product Liability Litigation*

The Company is a defendant in approximately 571 cases alleging that the plaintiffs were injured by Vioxx, an anti-inflammatory drug manufactured by Merck & Company (“Merck”). The cases typically assert causes of action for strict liability, negligence, breach of warranty and false advertising for improper design, testing, manufacturing and warnings relating to the manufacture and distribution of Vioxx. None of the cases involving the Company is scheduled for trial. The Company has tendered each of these cases to Merck and has reached an agreement with Merck to defend and indemnify the Company.

We, through our former McKesson Chemical Company division, are named in approximately 475 cases involving the alleged distribution of asbestos. These cases typically involve either single or multiple plaintiffs claiming personal injuries and unspecified compensatory and punitive damages as a result of exposure to asbestos-containing materials. Pursuant to an indemnification agreement signed at the time of the 1987 sale of McKesson Chemical Company to what is now called Univar USA Inc. (“Univar,”) we have tendered each of these actions to Univar. Univar has raised questions concerning the extent of its obligations under the indemnification agreement. Univar continues to defend the Company in some of these cases, but since February 2005 has been rejecting tenders and accordingly, the Company is incurring defense costs in connection with the more recently served actions. The Company believes that Univar remains obligated under the terms of the indemnification agreement. The Company has filed an arbitration demand against Univar pursuant to the indemnification agreement seeking a determination that the liability for these cases is Univar’s responsibility. An arbitration date of August 31, 2009 has been agreed upon for commencement of the arbitration of this dispute. In addition to its indemnification rights against Univar, the Company believes that portions of these claims are covered by insurance and is pursuing that coverage.

IV. Other Litigation and Claims

On May 3, 2004, judgment was entered against us and one of our employees in the action captioned *Roby v. McKesson HBOC, Inc. et al.*, (Superior Court for Yolo County, California, Case No. CV01-573). Former employee Charlene Roby (“Roby”) brought claims for wrongful termination, disability discrimination and disability-based harassment against McKesson and a claim for disability-based harassment against her former supervisor. The jury awarded Roby compensatory damages against McKesson and against her supervisor in the total amount of \$4 million and punitive damages in the amount of \$15 million against McKesson. Following post-trial motions, the trial court reduced the amount of compensatory damages against McKesson to \$3 million, the punitive damages awarded against both defendants and the compensatory damages awarded against the individual employee defendant were not reduced. We filed a Notice of Appeal, seeking reduction or reversal of the compensatory and punitive damage awards and the award of attorneys’ fees. On December 26, 2006, the Court of Appeals for the Third Appellate District of California issued its decision reversing the verdict for harassment against Roby’s supervisor, reducing the compensatory damages against McKesson from \$3 million to \$1 million and reducing punitive damages from \$15 million to \$2 million. Following the rejection of Roby’s petition for rehearing before the Court of Appeals, plaintiff petitioned for review by the California Supreme Court, which was granted on April 18, 2007. The briefing for the appeal has been completed and the parties await the court’s order scheduling the appeal for oral argument.

On July 14, 2006, an action was filed in the United States District Court for the Eastern District of New York against McKesson, two McKesson employees, several other drug wholesalers and numerous drug manufacturers, *RxUSA v. Alcon Laboratories et al.*, (Case No. 06-CV-3447-DRH). Plaintiff alleges that we, along with various other defendants, unlawfully engaged in monopolization and attempted monopolization of the sale and distribution of pharmaceutical products in violation of the federal antitrust laws, as well as in violation of New York State’s Donnelly Act. We are also alleged to have violated the Sarbanes-Oxley Act of 2002; and our employees are alleged to have violated the Donnelly Act, the Sarbanes-Oxley Act and Sections 1962 (c) and (d) of the civil RICO statute. Plaintiff alleges generally that defendants have individually, and in concert with one another, taken actions to create and maintain a monopoly and to exclude secondary wholesalers, such as the plaintiff, from the wholesale pharmaceutical industry. The complaint seeks monetary damages of approximately \$1.6 billion and also seeks treble damages, attorneys’ fees and injunctive relief. All defendants have filed motions to dismiss all claims. The motions were fully briefed and submitted to the trial court on March 13, 2007. The court has not yet decided any of the motions and has not set a date to hear oral argument on the motions. Discovery has been stayed subject to disposition of the motions to dismiss. No trial date has been set.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

On October 3, 2008, the United States filed a complaint in intervention in the United States District Court for the Northern District of Mississippi, naming as defendants, among others, the Company and its former indirect subsidiary, McKesson Medical-Surgical MediNet Inc., now merged into and doing business as McKesson Medical-Surgical MediMart Inc., *United States v. McKesson Corporation, et al.*, (Civil Action No. 2:08-CV-00214-SA). On December 3, 2008, the Company filed motions to dismiss the complaint on grounds that its allegations lack the particularity required by the Federal Rules of Procedure and on grounds that the complaint fails to state a claim under the False Claims Act, 31 U.S.C. Sections 3729-33. Briefing of the Company's motions has been completed and the parties are awaiting the court's order setting a date for oral argument.

Between 1976 and 1987, our former McKesson Chemical Company division operated a repackaging facility in Santa Fe Springs, California. We have been actively remediating the contamination at this site since 1994. Angeles Chemical Company ("Angeles") conducted similar repackaging activities at its property adjacent to the Company's site between 1976 and 2000. In late 2001, Angeles filed an action against McKesson, *Angeles Chemical Company v. McKesson Corporation, et al.*, (United States District Court for the Central District of California Case No. 01-10532-TJH) claiming that McKesson's contamination migrated to Angeles' property. The causes of action in the current complaint purport to state claims based on the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (as amended, the "Superfund" law or its state law equivalent) and the Resource Conservation and Recovery Act, as well as allege various state law claims, such as nuisance, trespass, negligence, defamation, interference with prospective advantage, unfair business practices and for declaratory relief, among others. Angeles seeks injunctive relief, as well as compensatory and punitive damages, attorneys' fees and costs in an unspecified amount. We have answered the complaint, denying liability and asserting affirmative defenses. Fact and expert discovery are closed and trial has been set for October 13, 2009.

V. Government Investigations and Subpoenas

From time to time, the Company receives subpoenas or requests for information from various government agencies. The Company generally responds to such subpoenas and requests in a cooperative, thorough and timely manner. These responses sometimes require considerable time and effort and can result in considerable costs being incurred by the Company. Such subpoenas and requests also can lead to the assertion of claims or the commencement of civil or criminal legal proceedings against the Company and other members of the health care industry, as well as to settlements. Examples of such requests and subpoenas include the following: (1) we have responded to a request from the Federal Trade Commission for certain documents as part of a non-public investigation to determine whether the Company may have engaged in anti-competitive practices with other wholesale pharmaceutical distributors in order to limit competition for provider customers seeking distribution services; (2) we have received and responded to a Civil Investigative Demand from the Attorney General's Office of the State of Tennessee apparently in connection with an investigation into possible violations of the Tennessee Medicaid False Claims Act in connection with repackaged pharmaceuticals; (3) we have responded to a subpoena from the office of the Attorney General of the State of New York requesting documents and other information concerning our participation in the secondary or "alternative source" market for pharmaceutical products; (4) we have received and have responded, or are in the process of responding to subpoenas and requests for information from a number of Offices of state Attorney Generals or other state agencies, relating to the pricing, including FDB's AWP, for branded and generic drugs; and (5) we are responding to a subpoena, issued by the United States Attorney's Office ("USAO") in Houston, which seeks documents relating to billing and collection services performed by our subsidiary, Per-Se for certain healthcare operations associated with the University of Texas from 2004 to the present.

On May 2, 2008, we entered into two agreements which resolved previously disclosed claims by the Drug Enforcement Administration ("DEA") and six USAOs that between 2005 and 2007, certain of our pharmaceutical distribution centers fulfilled customer orders for select controlled substances, which orders were not adequately reported to the DEA. The settlements were achieved consistent with the previously disclosed \$13 million reserve established for these matters. These settlements resolve all administrative and civil claims arising out of the investigations.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

As previously reported, on January 26, 2007, we acquired Per-Se, which became a wholly owned subsidiary of McKesson. Prior to its acquisition, Per-Se had publicly disclosed that in December 2004, the Securities and Exchange Commission (“SEC”) issued a formal order of investigation relating to accounting matters at NDCHealth Corporation (“NDCHealth,”) a then public company which was acquired by Per-Se in January 2006, prior to our acquisition of Per-Se. In March 2005, NDCHealth restated its financial statements for the fiscal years ended May 28, 2004, May 30, 2003 and May 31, 2002 and for the fiscal quarters ended August 22, 2004 and August 29, 2005 to correct errors relating to certain accounting matters. NDCHealth produced documents to the SEC and fully cooperated with the SEC in its investigation. The SEC has taken testimony from a number of current and former NDCHealth employees. There has been no activity in this matter for some time and the SEC has taken no action against NDCHealth or its successor to date.

VI. Environmental Matters

Primarily as a result of the operation of our former chemical businesses, which were fully divested by 1987, we are involved in various matters pursuant to environmental laws and regulations. We have received claims and demands from governmental agencies relating to investigative and remedial actions purportedly required to address environmental conditions alleged to exist at eight sites where we, or entities acquired by us, formerly conducted operations and we, by administrative order or otherwise, have agreed to take certain actions at those sites, including soil and groundwater remediation. In addition, we are one of multiple recipients of a New Jersey Department of Environmental Protection Agency directive and a separate United States Environmental Protection Agency directive relating to potential natural resources damages (“NRD”) associated with one of these eight sites. Although the Company’s potential allocation under either directive cannot be determined at this time, we have agreed to participate with a potentially responsible party (“PRP”) group in the funding of an NRD assessment, the costs of which are reflected in the aggregate estimates set forth below.

Based on a determination by our environmental staff, in consultation with outside environmental specialists and counsel, the current estimate of reasonably possible remediation costs for these eight sites is \$11 million, net of approximately \$2 million that third parties have agreed to pay in settlement or we expect, based either on agreements or nonrefundable contributions which are ongoing, to be contributed by third parties. The \$11 million is expected to be paid out between April 2009 and March 2029. Our estimated liability for these environmental matters has been accrued in the accompanying consolidated balance sheets.

In addition, we have been designated as a PRP under the Superfund law for environmental assessment and cleanup costs as the result of our alleged disposal of hazardous substances at 19 sites. With respect to these sites, numerous other PRPs have similarly been designated and while the current state of the law potentially imposes joint and several liability upon PRPs, as a practical matter, costs of these sites are typically shared with other PRPs. Our estimated liability at those 19 sites is approximately \$1 million. The aggregate settlements and costs paid by us in Superfund matters to date have not been significant. The accompanying consolidated balance sheets include this environmental liability.

VII. Other Matters

We are involved in various other litigation and governmental proceedings, not described above, that arise in the normal course of business. While it is not possible to determine with certainty the ultimate outcome or the duration of any such litigation or governmental proceedings, we believe based on current knowledge and the advice of our counsel that such litigation and proceedings will not have a material impact on our financial position or results of operations.

19. Stockholders’ Equity

Each share of the Company’s outstanding common stock is permitted one vote on proposals presented to stockholders and is entitled to share equally in any dividends declared by the Company’s Board of Directors (the “Board”).

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Share repurchase plans: Stock repurchases may be made from time to time in open market or private transactions. Information regarding our share repurchase activity is as follows:

	Share Repurchases ⁽¹⁾		Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
	Total Number of Shares Purchased ^{(2) (3)}	Average Price Paid Per Share	
<i>(In millions, except price per share)</i>			
Balance, March 31, 2006			\$ 1
Share repurchase plans approved			
April 2006			500
July 2006			500
Shares repurchased	20	\$ 51.46	(1,001)
Balance, March 31, 2007			-
Share repurchase plans approved			
April 2007			1,000
September 2007			1,000
Shares repurchased	28	\$ 59.48	(1,686)
Balance, March 31, 2008			314
Share repurchase plan approved			
April 2008			1,000
Shares repurchased	10	\$ 50.52	(484)
Balance, March 31, 2009			830

(1) This table does not include shares tendered to satisfy the exercise price in connection with cashless exercises of employee stock options or shares tendered to satisfy tax withholding obligations in connection with employee equity awards.

(2) All of the shares purchased were part of the publicly announced programs.

(3) The number of shares purchased reflects rounding adjustments.

In July 2008, the Board authorized the retirement of shares of the Company's common stock that may be repurchased from time to time pursuant to its stock repurchase program. During the second quarter of 2009, all of the 4 million repurchased shares, which we purchased for \$204 million, were formally retired by the Company. The retired shares constitute authorized but unissued shares. We elected to allocate any excess of share repurchase price over par value between additional paid-in capital and retained earnings. As such, \$165 million was recorded as a decrease to retained earnings.

20. Related Party Balances and Transactions

Notes receivable outstanding from certain of our current and former officers and senior managers totaled \$16 million at March 31, 2009 and 2008. These notes related to purchases of common stock under our various employee stock purchase plans. The notes bear interest at rates ranging from 4.7% to 7.1% and were due at various dates through February 2004. Interest income on these notes is recognized only to the extent that cash is received. These notes, which are included in other capital in the consolidated balance sheets, were issued for amounts equal to the market value of the stock on the date of the purchase and are at full recourse to the borrower. At March 31, 2009, the value of the underlying stock collateral was \$7 million. The collectability of these notes is evaluated on an ongoing basis. As a result, we recorded net credits of \$2 million in 2007 based on changes in price of the underlying stock collateral. At March 31, 2009 and 2008, we provided a reserve of approximately \$9 million and \$6 million for the outstanding notes. Other receivable balances held with related parties, consisting of loans made to certain officers and senior managers and an equity-held investment, at March 31, 2009 and 2008 amounted to \$1 million.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

We incurred \$10 million in 2009 and 2008 and \$8 million in 2007 of annual rental expense paid to an equity-held investment. In addition, in 2007 we purchased \$3 million of services from an equity-held investment.

21. Supplemental Cash Flow Information

<i>(In millions)</i>	Years Ended March 31,		
	2009	2008	2007
Cash paid for:			
Interest	\$ 139	\$ 146	\$ 100
Income taxes, net of refunds	235	(66)	27

22. Segments of Business

We report our operations in two operating segments: McKesson Distribution Solutions and McKesson Technology Solutions. The factors for determining the reportable segments included the manner in which management evaluates the performance of the Company combined with the nature of the individual business activities. We evaluate the performance of our operating segments based on operating profit before interest expense, income taxes and results from discontinued operations.

The Distribution Solutions segment distributes ethical and proprietary drugs, medical-surgical supplies and equipment, and health and beauty care products throughout North America. This segment also provides specialty pharmaceutical solutions for biotech and pharmaceutical manufacturers, sells pharmacy software and provides consulting, outsourcing and other services. This segment includes a 49% interest in Nadro, S.A. de C.V. ("Nadro"), one of the leading pharmaceutical distributors in Mexico and a 39% interest in Parata, which sells automated pharmaceutical dispensing systems to retail pharmacies.

The Technology Solutions segment delivers enterprise-wide clinical, patient care, financial, supply chain, strategic management software solutions, pharmacy automation for hospitals, as well as connectivity, outsourcing and other services, to healthcare organizations. The segment also includes our Payor group of businesses, which includes our InterQual®, clinical auditing and compliance software businesses and our disease and medical management programs. The segment's customers include integrated delivery networks, hospitals, physician practices, home healthcare providers, retail pharmacies and payors from North America, the United Kingdom, Ireland, other European countries, Asia Pacific and Israel.

Revenues for our Technology Solutions segment are classified in one of three categories: services, software and software systems and hardware. Services revenues primarily include fees associated with installing our software and software systems, as well as revenues associated with software maintenance and support, remote processing, disease and medical management, and other outsourcing and professional services. Software and software systems revenues primarily include revenues from licensing our software and software systems, including the segment's clinical auditing and compliance and InterQual® businesses.

Our Corporate segment includes expenses associated with Corporate functions and projects, certain employee benefits and the results of certain joint venture investments. Corporate expenses are allocated to the operating segments to the extent that these items can be directly attributable to the segment.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Financial information relating to the reportable operating segments is presented below:

(In millions)	Years Ended March 31,		
	2009	2008	2007
Revenues			
Distribution Solutions ⁽¹⁾			
U.S. pharmaceutical direct distribution & services	\$ 66,876	\$ 60,436	\$ 54,127
U.S. pharmaceutical sales to customers' warehouses	25,809	27,668	27,555
Subtotal	92,685	88,104	81,682
Canada pharmaceutical distribution & services	8,225	8,106	6,692
Medical-Surgical distribution & services	2,658	2,509	2,364
Total Distribution Solutions	103,568	98,719	90,738
Technology Solutions			
Services ⁽²⁾	2,337	2,240	1,537
Software and software systems	572	591	536
Hardware	155	153	166
Total Technology Solutions	3,064	2,984	2,239
Total	\$ 106,632	\$ 101,703	\$ 92,977
Operating profit ⁽³⁾			
Distribution Solutions ⁽⁴⁾	\$ 1,158	\$ 1,483	\$ 1,395
Technology Solutions ⁽²⁾	334	319	206
Total	1,492	1,802	1,601
Corporate	(284)	(208)	(211)
Litigation credits	-	5	6
Interest expense	(144)	(142)	(99)
Income from continuing operations before income taxes	\$ 1,064	\$ 1,457	\$ 1,297
Depreciation and amortization ⁽⁵⁾			
Distribution Solutions	\$ 177	\$ 144	\$ 126
Technology Solutions	205	180	123
Corporate	59	47	46
Total	\$ 441	\$ 371	\$ 295
Expenditures for long-lived assets ⁽⁶⁾			
Distribution Solutions	\$ 83	\$ 96	\$ 57
Technology Solutions	43	54	42
Corporate	69	45	27
Total	\$ 195	\$ 195	\$ 126
Segment assets, at year end			
Distribution Solutions	\$ 18,674	\$ 18,382	\$ 16,429
Technology Solutions	3,606	3,797	3,642
Total	22,280	22,179	20,071
Corporate			
Cash and cash equivalents	2,109	1,362	1,954
Other	878	1,062	1,918
Total	\$ 25,267	\$ 24,603	\$ 23,943

(1) Revenues derived from services represent less than 1% of this segment's total revenues for 2009, 2008 and 2007.

(2) Revenues and operating profit for 2008 for our Technology Solutions segment reflect the recognition of \$21 million of disease management deferred revenues for which expenses associated with these revenues were previously recognized as incurred.

(3) Operating profit includes \$7 million, \$21 million and \$23 million of net earnings from equity investments in 2009, 2008 and 2007. These earnings are primarily recorded within our Distribution Solutions segment.

(4) Operating profit includes the following pre-tax items: a \$63 million charge to write-down two equity-held investments, a \$493 million charge associated with the AWP Litigation and a \$24 million pre-tax gain on the sale of our 42% equity interest in Verispan.

(5) Depreciation and amortization includes amortization of intangibles, capitalized software held for sale and capitalized software for internal use.

(6) Long-lived assets consist of property, plant and equipment.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Revenues and property, plant and equipment by geographic areas were as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2009	2008	2007
Revenues			
United States	\$ 98,194	\$ 93,389	\$ 86,026
International	8,438	8,314	6,951
Total	<u>\$ 106,632</u>	<u>\$ 101,703</u>	<u>\$ 92,977</u>
Property, plant and equipment, net, at year end			
United States	\$ 719	\$ 695	\$ 606
International	77	80	78
Total	<u>\$ 796</u>	<u>\$ 775</u>	<u>\$ 684</u>

International operations primarily consist of our operations in Canada, the United Kingdom, Ireland, other European countries, Asia Pacific and Israel. We also have an equity-held investment (Nadro) in Mexico. Net revenues were attributed to geographic areas based on the customers' shipment locations.

McKESSON CORPORATION

FINANCIAL NOTES (Concluded)

23. Quarterly Financial Information (Unaudited)

<i>(In millions, except per share amounts)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Fiscal 2009					
Revenues	\$ 26,704	\$ 26,574	\$ 27,130	\$ 26,224	\$ 106,632
Gross profit	1,268	1,302	1,343	1,465	5,378
Net income ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	235	327	(20)	281	823
Earnings per common share ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾					
Diluted	0.83	1.17	(0.07)	1.01	2.95
Basic	0.85	1.19	(0.07)	1.03	2.99
Cash dividends per common share	\$ 0.12	\$ 0.12	\$ 0.12	\$ 0.12	\$ 0.48
Market prices per common share					
High	\$ 58.78	\$ 58.85	\$ 52.55	\$ 45.80	\$ 58.85
Low	51.96	52.32	28.60	34.77	28.60
Fiscal 2008					
Revenues	\$ 24,528	\$ 24,450	\$ 26,494	\$ 26,231	\$ 101,703
Gross profit	1,177	1,181	1,204	1,447	5,009
Income after income taxes					
Continuing operations	\$ 236	\$ 247	\$ 201	\$ 305	\$ 989
Discontinued operations	(1)	-	-	2	1
Total	\$ 235	\$ 247	\$ 201	\$ 307	\$ 990
Earnings per common share					
Diluted					
Continuing operations	\$ 0.77	\$ 0.83	\$ 0.68	\$ 1.04	\$ 3.32
Discontinued operations	-	-	-	0.01	-
Total	\$ 0.77	\$ 0.83	\$ 0.68	\$ 1.05	\$ 3.32
Basic					
Continuing operations	\$ 0.79	\$ 0.85	\$ 0.69	\$ 1.07	\$ 3.40
Discontinued operations	-	-	-	0.01	-
Total	\$ 0.79	\$ 0.85	\$ 0.69	\$ 1.08	\$ 3.40
Cash dividends per common share	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.24
Market prices per common share					
High	\$ 63.90	\$ 62.01	\$ 68.43	\$ 68.40	\$ 68.43
Low	57.72	53.45	56.30	51.08	51.08

- (1) Financial results for the second quarter and full year 2009 include a \$24 million pre-tax gain (\$14 million after-tax) on sale of our 42% interest in Verispan.
- (2) Financial results for the second and fourth quarters and full year 2009 include \$67 million, \$22 million and \$89 million of income tax credits related to the recognition of previously unrecognized tax benefits and related interest expense as a result of the lapsing of the statutes of limitations.
- (3) Financial results for the third quarter and full year 2009 include a \$493 million pre-tax charge (\$311 million after-taxes) associated with the AWP Litigation.
- (4) Financial results for the fourth quarter and full year 2009 include a \$63 million pre-tax impairment charge (\$60 million after-taxes) associated with two equity-held investments.

McKESSON CORPORATION

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

John H. Hammergren
Chairman, President and
Chief Executive Officer,
McKesson Corporation

Andy D. Bryant
Executive Vice President and
Chief Administrative Officer,
Intel Corporation

Wayne A. Budd
Senior Counsel,
Goodwin Procter LLP

Alton F. Irby III
Chairman and Founding Partner,
London Bay Capital

M. Christine Jacobs
Chairman of the Board, President, and
Chief Executive Officer,
Theragenics Corporation

Marie L. Knowles
Executive Vice President and
Chief Financial Officer, Retired,
Atlantic Richfield Company

David M. Lawrence M.D.
Chairman of the Board and Chief Executive Officer, Retired,
Kaiser Foundation Health Plan, Inc., and
Kaiser Foundation Hospitals

Edward A. Mueller
Chairman of the Board and Chief Executive Officer,
Qwest Communications International, Inc.

James V. Napier
Chairman of the Board, Retired
Scientific-Atlanta, Inc.

Jane E. Shaw, Ph.D.
Chairman of the Board and Chief Executive Officer, Retired
Aerogen, Inc.

CORPORATE OFFICERS

John H. Hammergren
Chairman, President and
Chief Executive Officer

Jeffrey C. Campbell
Executive Vice President and
Chief Financial Officer

Jorge L. Figueredo
Executive Vice President, Human Resources

Paul C. Julian
Executive Vice President,
Group President

Nicholas A. Loiacono
Vice President and Treasurer

Marc E. Owen
Executive Vice President, Corporate Strategy
and Business Development

Nigel A. Rees
Vice President and Controller

Laureen E. Seeger
Executive Vice President, General Counsel
and Secretary

Randall N. Spratt
Executive Vice President,
Chief Technology Officer and
Chief Information Officer

McKESSON CORPORATION

CORPORATE INFORMATION

Common Stock

McKesson Corporation common stock is listed on the New York Stock Exchange (ticker symbol MCK) and is quoted in the daily stock tables carried by most newspapers.

Stockholder Information

BNY MELLON Shareowner Services, 480 Washington Boulevard, Newport Office Center VII, 29th Floor, Jersey City, NJ 07310 acts as transfer agent, registrar, dividend-paying agent and dividend reinvestment plan agent for McKesson Corporation stock and maintains all registered stockholder records for the Company. For information about McKesson Corporation stock or to request replacement of lost dividend checks, stock certificates, 1099-DIVs, or to have your dividend check deposited directly into your checking or savings account, stockholders may call BNY MELLON Shareowner Services' telephone response center at (866) 216-0306, weekdays 9:00 a.m. to 5:00 p.m., ET. For the hearing impaired call (888) 269-5221. BNY MELLON Shareowner Services also has a Web site: <http://www.melloninvestor.com/isd> – that stockholders may use 24 hours a day to request account information.

Dividends and Dividend Reinvestment Plan

Dividends are generally paid on the first business day of January, April, July and October. McKesson Corporation's Dividend Reinvestment Plan offers stockholders the opportunity to reinvest dividends in common stock and to purchase additional shares of common stock. Stock in an individual's Dividend Reinvestment Plan is held in book entry at the Company's transfer agent, BNY MELLON Shareowner Services. For more information, or to request an enrollment form, call BNY MELLON Shareowner Services' telephone response center at (866) 216-0306. From outside the United States, call +1-212-815-3700.

Annual Meeting

McKesson Corporation's Annual Meeting of Stockholders will be held at 8:30 a.m., PDT, on Wednesday, July 22, 2009 at the A. P. Giannini Auditorium, 555 California Street, San Francisco, California.

Exhibit 31.1

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John H. Hammergren, certify that:

1. I have reviewed this annual report on Form 10-K of McKesson Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2009

/s/ John H. Hammergren
John H. Hammergren
Chairman, President and Chief Executive Officer

Exhibit 31.2

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeffrey C. Campbell, certify that:

1. I have reviewed this annual report on Form 10-K of McKesson Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2009

/s/ Jeffrey C. Campbell
Jeffrey C. Campbell
Executive Vice President and Chief Financial Officer

Exhibit 32

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of McKesson Corporation (the "Company") on Form 10-K for the year ended March 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the dates indicated below, each hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of their knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John H. Hammergren
John H. Hammergren
Chairman, President and Chief Executive Officer
May 5, 2009

/s/ Jeffrey C. Campbell
Jeffrey C. Campbell
Executive Vice President and Chief Financial Officer
May 5, 2009

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002, and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to McKesson Corporation and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

TRIAL EXHIBIT 92

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2010

OR

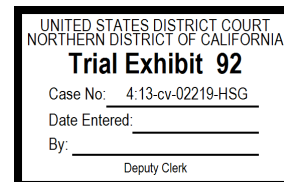
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

**Commission File Number 1-13252
McKESSON CORPORATION
A Delaware Corporation**

**I.R.S. Employer Identification Number
94-3207296**

**McKesson Plaza
One Post Street, San Francisco, CA 94104
Telephone (415) 983-8300**



Securities registered pursuant to Section 12(b) of the Act:

<i>(Title of Each Class)</i>	<i>(Name of Each Exchange on Which Registered)</i>
Common Stock, \$0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, September 2009, was approximately \$16.1 billion.

Number of shares of common stock outstanding on April 30, 2010: 271,391,624.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2010 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

McKESSON CORPORATION**TABLE OF CONTENTS**

<u>Item</u>	<u>Page</u>
PART I	
1. Business.....	3
1A. Risk Factors.....	11
1B. Unresolved Staff Comments	22
2. Properties.....	22
3. Legal Proceedings	22
4. Reserved.....	22
Executive Officers of the Registrant	23
PART II	
5. Market for the Registrant’s Common Equity, Related Stockholder Matters, Issuer Purchases of Equity Securities and Stock Price Performance Graph.....	24
6. Selected Financial Data	26
7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	27
7A. Quantitative and Qualitative Disclosures About Market Risk.....	49
8. Financial Statements and Supplementary Data	50
9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	106
9A. Controls and Procedures.....	106
9B. Other Information.....	106
PART III	
10. Directors, Executive Officers and Corporate Governance	107
11. Executive Compensation	107
12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.....	107
13. Certain Relationships and Related Transactions and Director Independence	109
14. Principal Accounting Fees and Services	109
PART IV	
15. Exhibits and Financial Statement Schedule.....	110
Signatures	111

McKESSON CORPORATION**PART I****Item 1. Business****General**

McKesson Corporation (“McKesson,” the “Company,” the “Registrant” or “we” and other similar pronouns), is a Fortune 14 corporation that delivers medicines, pharmaceutical supplies, information and care management products and services designed to reduce costs and improve quality across the healthcare industry.

The Company’s fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references in this document to a particular year shall mean the Company’s fiscal year.

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act,”) are available free of charge on our Web site (www.mckesson.com under the “Investors – Financial Information – SEC Filings” caption) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (“SEC” or the “Commission”). The content on any Web site referred to in this Annual Report on Form 10-K is not incorporated by reference into this report, unless expressly noted otherwise.

The public may also read or copy any materials that we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NW, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers, including the Company, that file electronically with the SEC. The address of the website is <http://www.sec.gov>.

Business Segments

We operate in two segments. The McKesson Distribution Solutions segment distributes ethical and proprietary drugs, medical-surgical supplies and equipment and health and beauty care products throughout North America. This segment also provides specialty pharmaceutical solutions for biotech and pharmaceutical manufacturers, sells financial, operational and clinical solutions for pharmacies (retail, hospital, long-term care) and provides consulting, outsourcing and other services. This segment includes a 49% interest in Nadro, S.A. de C.V. (“Nadro”), one of the leading pharmaceutical distributors in Mexico and a 39% interest in Parata Systems, LLC (“Parata”), which sells automated pharmacy and supply management systems and services to retail and institutional outpatient pharmacies.

The McKesson Technology Solutions segment delivers enterprise-wide clinical, patient care, financial, supply chain, strategic management software solutions, pharmacy automation for hospitals, as well as connectivity, outsourcing and other services, including remote hosting and managed services, to healthcare organizations. This segment also includes our Payor group of businesses, which includes our InterQual® claims payment solutions, medical management software businesses and our care management programs. The segment’s customers include hospitals, physicians, homecare providers, retail pharmacies and payors from North America, the United Kingdom, Ireland, other European countries, Asia Pacific and Israel.

Net revenues for our segments for the last three years were as follows:

<i>(Dollars in billions)</i>	2010		2009		2008	
Distribution Solutions	\$ 105.6	97%	\$ 103.6	97%	\$ 98.7	97%
Technology Solutions	3.1	3%	3.0	3%	3.0	3%
Total	\$ 108.7	100%	\$ 106.6	100%	\$ 101.7	100%

McKESSON CORPORATION*Distribution Solutions*

McKesson Distribution Solutions consists of the following businesses: U.S. Pharmaceutical Distribution, McKesson Canada, Medical-Surgical Distribution, McKesson Pharmacy Systems and Automation and McKesson Specialty Care Solutions. This segment also includes our 49% interest in Nadro and 39% interest in Parata.

U.S. Pharmaceutical Distribution: This business supplies pharmaceuticals and/or other healthcare-related products to customers in three primary customer channels: 1) retail national accounts (including national and regional chains, food/drug combinations, mail order pharmacies and mass merchandisers); 2) independent retail pharmacies; and 3) institutional healthcare providers (including hospitals, health systems, integrated delivery networks, clinics and long-term care providers).

Our U.S. pharmaceutical distribution business operates and serves thousands of customer locations through a network of 29 distribution centers, as well as a primary redistribution center, a strategic redistribution center and two repackaging facilities, serving all 50 states and Puerto Rico. We invest in technology and other systems at all of our distribution centers to enhance safety, reliability and provide the best product availability for our customers. For example, in all of our distribution centers we use Acumax® Plus, a Smithsonian award-winning technology that integrates and tracks all internal inventory-related functions such as receiving, put-away and order fulfillment. Acumax® Plus uses bar code technology, wrist-mounted computer hardware and radio frequency signals to provide customers with real-time product availability and industry-leading order quality and fulfillment in excess of 99.9% adjusted accuracy. In addition, we offer Mobile ManagerSM, which integrates portable handheld technology with Acumax® Plus to give customers complete ordering and inventory control. We also offer McKesson ConnectSM (formerly Supply Management OnlineSM), an Internet-based ordering system that provides item lookup and real-time inventory availability as well as ordering, purchasing, third-party reconciliation and account management functionality. Together, these features help ensure customers have the right products at the right time for their facilities and patients.

To maximize distribution efficiency and effectiveness, we follow the Six Sigma methodology — an analytical approach that emphasizes setting high-quality objectives, collecting data and analyzing results to a fine degree in order to improve processes, reduce costs and minimize errors. We continue to implement information systems to help achieve greater consistency and accuracy both internally and for our customers.

The major offerings of the McKesson U.S. Pharmaceutical Distribution business, by customer group can be categorized as retail national accounts, independent retail pharmacies and institutional healthcare providers.

Retail National Accounts — Business solutions that help national account customers increase revenues and profitability. Solutions include:

- Central FillSM — Prescription refill service that enables pharmacies to more quickly refill prescriptions remotely, more accurately and at a lower cost, while reducing inventory levels and improving customer service.
- Redistribution Centers — Two facilities totaling over 500 thousand square feet that offer access to inventory for single source warehouse purchasing, including pharmaceuticals and biologicals. These distribution centers also provide the foundation for a two-tiered distribution network that supports best-in-class direct store delivery.
- EnterpriseRxSM — A fully integrated and centrally hosted pharmacy management solution (application service provider model). Built utilizing the latest technology, EnterpriseRxSM centralizes data, reporting, pricing and drug updates, providing the operational control, visibility and support needed to reduce costs and streamline administrative tasks.
- RxPakSM — Bulk-to-bottle repackaging service that leverages our purchasing scale and supplier relationships to provide pharmaceuticals at reduced prices, help increase inventory turns and reduce working capital investment.
- Inventory Management — An integrated solution comprising forecasting software and automated replenishment technologies that reduce inventory-carrying costs.
- McKesson OneStop Generics® — Generic pharmaceutical purchasing program that helps pharmacies maximize their cost savings with a broad selection of generic drugs, low pricing and one-stop shopping.

McKESSON CORPORATION

Independent Retail Pharmacies — Solutions for managed care contracting, branding and advertising, merchandising, purchasing, operational efficiency and automation that help independent pharmacists focus on patient care while improving profitability. Solutions include:

- Health Mart® —Health Mart® is a national network of more than 2,500 independently-owned pharmacies and is one of the industry's most comprehensive pharmacy franchise programs. Health Mart® provides franchisees with managed care that drives Pharmacy Benefit Manager recognition, branding that drives consumer recognition, in-store programs that drive manufacturer and payor recognition and community advocacy programs that drive industry recognition. Health Mart® helps franchisees grow their businesses by focusing on the three principles of successful retailing:
 - Attract new customers;
 - Maximize the value of current customers; and
 - Enhance business efficiency.
- AccessHealth® — Comprehensive managed care and reconciliation assistance services that help independent pharmacies save time, access competitive reimbursement rates and improve cash flow.
- McKesson Reimbursement AdvantageSM (“MRA”) — MRA is one of the industry's most comprehensive reimbursement optimization packages, comprising financial services (automated claim resubmission), analytic services and customer care.
- McKesson OneStop Generics® — described above
- EnterpriseRxSM — described above
- Sunmark® — Complete line of more than 1,000 products that provide retail independent pharmacies with value-priced alternatives to national brands.
- FrontEdgeTM — Strategic planning, merchandising and price maintenance program that helps independent pharmacies maximize store profitability.
- McKesson Home Health Care — Comprehensive line of more than 1,800 home health care products, including durable medical equipment, diabetes supplies, self-care supplies and disposables from national brands and the Sunmark® line.
- Central FillSM — described above

Institutional Healthcare Providers — Electronic ordering/purchasing and supply chain management systems that help customers improve financial performance, increase operational efficiencies and deliver better patient care. Solutions include:

- McKesson Pharmacy OptimizationSM — An experienced group of pharmacy professionals providing consulting services and pharmacy practice resources. McKesson Pharmacy Optimization develops customized and quantifiable solutions that help hospitals create and sustain financial, operational and clinical results.
- Fulfill-RxSM — Ordering and inventory management system that integrates McKesson pharmaceutical distribution services with our automation solutions, thus empowering hospitals to optimize the often complicated and disjointed processes related to unit-based cabinet replenishment and inventory management.
- Asset Management — Award-winning inventory optimization and purchasing management program that helps institutional providers lower costs while ensuring product availability.
- SKY Packaging — Blister-format packaging containing the most widely prescribed dosages and strengths in generic oral-solid medications. SKY enables acute care, long-term care and institutional pharmacies to provide cost-effective, uniform packaging.
- McKesson OneStop Generics® — Generic pharmaceutical purchasing program that enables acute care pharmacies to capture the full potential of purchasing generic pharmaceuticals. The Long-Term Care OneStop Generics program allows a long-term care pharmacy to capture savings on generic purchases.
- McKesson 340B Solution Suite — Solutions that help providers manage, track and report on medication replenishment associated with the federal 340B Drug Pricing Program.
- High Performance PharmacySM — Framework that identifies and categorizes hospital pharmacy best practices to help improve clinical outcomes and financial results. The High Performance Pharmacy Assessment tool enables hospital pharmacies to measure against comparable institutions and chart a step-by-step path to high performance.

McKESSON CORPORATION

McKesson Canada: McKesson Canada, a wholly-owned subsidiary, is one of the largest pharmaceutical distributors in Canada. McKesson Canada, through its network of 17 distribution centers, provides logistics and distribution to more than 800 manufacturers – delivering their products to retail pharmacies, hospitals, long-term care centers, clinics and institutions throughout Canada. Beyond pharmaceutical distribution, logistics and order fulfillment, McKesson Canada has automated over 2,500 retail pharmacies and is also active in hospital automation solutions, dispensing more than 100 million doses each year. In partnership with other McKesson businesses, McKesson Canada provides a full range of services to Canadian manufacturers and healthcare providers, contributing to the quality and safety of care for Canadian patients.

Medical–Surgical Distribution: Medical-Surgical Distribution provides medical-surgical supply distribution, equipment, logistics and other services to healthcare providers including physicians’ offices, surgery centers, extended care facilities, homecare and occupational health sites through a network of 29 distribution centers within the U.S. This business is a leading provider of supplies to the full range of alternate-site healthcare facilities, including physicians’ offices, clinics and surgery centers (primary care), long-term care, occupational health facilities and homecare sites (extended care). Through a variety of technology products and services geared towards the supply chain, our Medical-Surgical Distribution business is focused on helping its customers operate more efficiently while providing one of the industry’s most extensive product offerings, including our own private label line. This business also includes ZEE® Medical, one of the most extensive product offerings in the industry of first aid, safety and training solutions, providing services to industrial and commercial customers. This business offers an extensive line of products and services aimed at maximizing productivity and minimizing the liability and cost associated with workplace illnesses and injuries.

McKesson Pharmacy Systems and Automation: This business supplies integrated pharmacy management systems, automated dispensing systems and related services to retail, outpatient, central fill, specialty and mail order pharmacies. Its primary offering is EnterpriseRxSM, a fully integrated and centrally hosted pharmacy management solution (application service provider model). Built utilizing the latest technology, EnterpriseRxSM centralizes data, reporting, pricing and drug updates, providing the operational control, visibility and support needed to reduce costs and streamline administrative tasks. We also own a 39% interest in Parata which sells automated pharmacy and supply management systems and services to retail and institutional pharmacies.

McKesson Specialty Care Solutions: This business provides solutions for patients with complex diseases and advances specialty care by facilitating collaboration among healthcare providers, drug manufacturers and payors through our expertise in specialty drug distribution and commercialization support. The business provides direct-to-physician specialty distribution services ensuring specialty drugs are received in manufacturer recommended conditions. This business also offers our industry leading Lynx® integrated technologies and clinical tools, which help provider organizations to improve their inventory management, business efficiencies and reimbursement processes. The business also works with manufacturers to optimize delivery of complex medication to patients through custom distribution and safety programs that support appropriate product utilization, as well as the development and management of reimbursement and patient access programs that help patients to gain cost effective access to needed therapies.

Technology Solutions

Our Technology Solutions segment provides a comprehensive portfolio of software, automation, support and services to help healthcare organizations improve quality and patient safety, reduce the cost and variability of care and better manage their resources and revenue stream. This segment also includes our InterQual® claims payment solutions and medical management software businesses and our care management programs. Technology Solutions markets its products and services to integrated delivery networks, hospitals, physician practices, home healthcare providers, retail pharmacies and payors. Our solutions and services are sold internationally through subsidiaries and/or distribution agreements in Canada, the United Kingdom, Ireland, other European countries, Asia Pacific and Israel.

McKESSON CORPORATION

The product portfolio for the Technology Solutions segment is designed to address a wide array of healthcare clinical and business performance needs ranging from medication safety and information access to revenue cycle management, resource utilization and physician adoption of electronic health records (“EHR”). Analytics software enables organizations to measure progress as they automate care processes for optimal clinical outcomes, business and operating results and regulatory compliance. To ensure that organizations achieve the maximum value for their information technology investment, we also offer a wide range of services to support the implementation and use of solutions as well as assist with business and clinical redesign, process re-engineering and staffing (both information technology and back-office).

Key solution areas are as follows:

Clinical management: Horizon Clinicals® is built with architecture to facilitate integration and enable modular system deployment. The solution suite includes a clinical data repository, health care planning, physician order entry, point-of-care documentation with bar-coded medication administration, enterprise laboratory, radiology, pharmacy, surgical management, an emergency department solution and an ambulatory EHR system. Horizon Clinicals® also includes solutions to facilitate physician access to patient information such as a Web-based physician portal and wireless devices that draw on information from the hospital’s information systems. In addition, the Horizon Clinicals® suite includes a comprehensive solution for homecare, including telehealth and hospice.

Enterprise imaging: In addition to document imaging to facilitate maintenance and access to complete medical records, we offer medical imaging and information management systems for healthcare enterprises, including a picture archiving communications system, a radiology information system and a comprehensive cardiovascular information system. Our enterprise-wide approach to medical imaging enables organizations to take advantage of specialty-specific workstations while building an integrated image repository that manages all of the images and information captured throughout the care continuum.

Financial management: Revenue management solutions are designed to improve financial performance by reducing days in accounts receivable, preventing insurance claim denials, reducing costs and improving productivity. Solutions include online patient billing, contract management, electronic claims processing and coding compliance checking. Horizon Enterprise Revenue Management™ streamlines patient access and helps organizations to forecast financial responsibility for all constituents before and during care. The system also streamlines financial processes to allow providers to collect their reimbursement more quickly and at a lower cost. Hospital information systems play a key role in managing the revenue cycle by automating the operation of individual departments and their respective functions within the inpatient environment.

Resource management: Resource management solutions are designed to enhance an organization’s ability to plan and optimize quality care delivery. Enterprise visibility and performance analytics provide business intelligence that enables providers to manage capacity, outcomes, productivity and patient flow. Workforce management solutions assist caregivers with staffing and maintaining labor rule continuity between scheduling, time and attendance and payroll. A comprehensive supply chain management solution integrates enterprise resource planning applications, including financials, materials, Human Resources/Payroll, with scheduling, point of use, surgical services and enterprise-wide analytics.

Automation: Automation solutions include technologies that help hospitals re-engineer and improve their medication use processes. Examples include centralized pharmacy automation for dispensing unit-dose medications, unit-based cabinet technologies for secure medication storage and rapid retrieval and an anesthesia cart for dispensing of medications in the operating room. Based on a foundation of bar-code scanning technology, these integrated solutions are designed to reduce errors and bring new levels of safety to patients.

McKESSON CORPORATION

Physician practice solutions: We provide a complete solution for physician practices of all sizes that includes software, revenue cycle outsourcing and connectivity services. Software solutions include practice management and EHR software for physicians of every size and specialty. Our physician practice offering also includes outsourced billing and collection services as well as services that connect physicians with their patients, hospitals, retail pharmacies and payors. Revenue cycle outsourcing enables physician groups to avoid the infrastructure investment and administrative costs of an in-house billing office. Services include clinical data collection, data input, medical coding, billing, contract management, cash collections, accounts receivable management and extensive reporting of metrics related to the physician practice.

Connectivity: Through our vendor-neutral RelayHealth® and its intelligent network, the Company provides health information exchange and revenue cycle management solutions that streamline clinical, financial and administrative communication between patients, providers, payors, pharmacies, manufacturers, government and financial institutions. RelayHealth® helps to accelerate the delivery of high-quality care and improve financial performance through online consultation of physicians by patients, electronic prescribing by physicians, point-of-service resolution of pharmacy claims by payors, pre-visit financial clearance of patients by providers and post-visit settlement of provider bills by payors and patients. RelayHealth® securely processes more than 12.6 billion financial and clinical transactions annually.

In addition to the product offerings described above, Technology Solutions offers a comprehensive range of services to help organizations derive greater value, enhance satisfaction and return on investment throughout the life of the solutions implemented. The range of services includes:

Technology Services: Technology services supports the smooth operation of numerous organizations' information systems by providing the technical infrastructure designed to maximize application accessibility, availability, security and performance.

Outsourcing Services: With these services, we help providers focus their resources on healthcare while their information technology or operations are supported through managed services, including outsourcing. Service options include remote hosting, managing hospital data processing operations, as well as strategic information systems planning and management, revenue cycle processes, payroll processing, business office administration and major system conversions.

Professional Services: Professional services help customers achieve business results from their software or automation investment. A wide array of service options is available, including consulting for business and/or clinical process improvement and re-design as well as implementation, project management, technical and education services relating to all products in the Technology Solutions segment.

Payor Group: The following suite of services and software products is marketed to payors, employers and government organizations to help manage the cost and quality of care:

- Disease management programs to improve the health status and health outcomes of patients with chronic conditions;
- Nurse triage services to provide health information and recommend appropriate levels of care;
- Clinical and analytical software to support utilization, case and disease management workflows;
- Business intelligence tools for measuring, reporting and improving clinical and financial performance;
- InterQual® Criteria for clinical decision support and utilization management; and
- Claims payment solutions to facilitate accurate and efficient medical claim payments.

Business Combinations, Investments and Discontinued Operations

We have undertaken strategic initiatives in recent years designed to further focus on our core healthcare businesses and enhance our competitive position. We expect to continue to undertake such strategic initiatives in the future. These initiatives are detailed in Financial Notes 2 and 7, "Business Combinations and Investments" and "Discontinued Operations," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

McKESSON CORPORATION**Competition**

In every area of healthcare distribution operations, our Distribution Solutions segment faces strong competition, both in price and service, from national, regional and local full-line, short-line and specialty wholesalers, service merchandisers, self-warehousing chains, manufacturers engaged in direct distribution and large payor organizations. In addition, this segment faces competition from various other service providers and from pharmaceutical and other healthcare manufacturers (as well as other potential customers of the segment) which may from time-to-time decide to develop, for their own internal needs, supply management capabilities that would otherwise be provided by the segment. Price, quality of service, and in some cases, convenience to the customer are generally the principal competitive elements in this segment.

Our Technology Solutions segment experiences substantial competition from many firms, including other software services firms, consulting firms, shared service vendors, certain hospitals and hospital groups, payors, care management organizations, hardware vendors and Internet-based companies with technology applicable to the healthcare industry. Competition varies in size from small to large companies, in geographical coverage and in scope and breadth of products and services offered.

Intellectual Property

The principal trademarks and service marks of the Distribution Solutions segment include: AccessHealth®, Acumax®, Central FillSM, Closed Loop DistributionSM, CypressSM, Cypress Plus®, Edwards Medical Supply®, Empowering Healthcare®, EnterpriseRxSM, Expect More From MooreSM, FrontEdgeTM, Fulfill-RxSM, Health Mart®, High Performance PharmacySM, LoyaltyScript®, Lynx®, Max ImpactSM, McKesson®, McKesson AdvantageSM, McKesson ConnectSM, McKesson Empowering Healthcare®, McKesson High Volume SolutionsSM, McKesson Max Rewards®, McKesson OneStop Generics®, McKesson Pharmacy CentralSM, McKesson Pharmacy OptimizationSM, McKesson Priority Express OTCSM, McKesson Reimbursement AdvantageSM, McKesson Supply ManagerSM, MediNetTM, Medi-Pak®, Mobile ManagerSM, Moore Medical®, Moorebrand®, NorthstarxTM, Onmark®, Pharma360®, PharmacyRxTM, Pharmaserv®, ProIntercept®, ProMed®, ProPBM®, RX PakSM, RxOwnershipSM, ServiceFirstSM, Staydry®, Sterling Medical Services®, Sunmark®, The Supply Experts®, Supply Management OnlineSM, TrialScript®, Valu-Rite®, XVIII B Medi Mart®, Zee Medical Service® and ZEE®.

The substantial majority of technical concepts and codes embodied in our Technology Solutions segment's computer programs and program documentation are protected as trade secrets. The principal trademarks and service marks for this segment are: AcuDose-Rx®, ANSOS One-StaffTM, Ask-A-Nurse®, Care Fully ConnectedTM, CareEnhance®, Connect-RNTM, Connect-Rx®, CRMSTTM, DataStat®, ePremis®, Episode ProfilerTM, E-ScriptTM, Fulfill-RxSM, HealthQuestTM, Horizon Admin-RxTM, Horizon Clinicals®, Horizon Enterprise Revenue ManagementTM, HorizonWP®, InterQual®, Lytec®, MedCarousel®, Medisoft®, ORSOS One-CallTM, PACMEDTM, PakPlus-RxTM, Paragon®, Pathways 2000®, Patterns ProfilerTM, Per-SeTM, Per-Se Technologies®, PerYourHealth.com®, Practice Partner®, Premis®, RelayHealth®, ROBOT-Rx®, SelfPace®, Series 2000TM, STAR 2000TM, SupplyScanTM, TRENDSTAR® and WebVisitTM.

We also own other registered and unregistered trademarks and service marks and similar rights used by our business segments. Many of the principal trademarks and service marks are registered in the United States, or registrations have been applied for with respect to such marks, in addition to certain other jurisdictions. The United States federal registrations of these trademarks have terms of ten or twenty years, depending on date of registration, and are subject to unlimited renewals. We believe that we have taken all necessary steps to preserve the registration and duration of our trademarks and service marks, although no assurance can be given that we will be able to successfully enforce or protect our rights thereunder in the event that they are subject to third-party infringement claims. We do not consider any particular patent, license, franchise or concession to be material to our business. We also hold copyrights in, and patents related to, many of our products.

McKESSON CORPORATION**Other Information about the Business**

Customers: During 2010, sales to our ten largest customers accounted for approximately 53% of our total consolidated revenues. Sales to our two largest customers, CVS Caremark Corporation (“CVS”) and Rite Aid Corporation (“Rite Aid”), accounted for approximately 15% and 12% of our total consolidated revenues. At March 31, 2010, accounts receivable from our ten largest customers were approximately 45% of total accounts receivable. Accounts receivable from CVS and Rite Aid were approximately 14% and 10% of total accounts receivable. Substantially all of these revenues and accounts receivable are included in our Distribution Solutions segment.

Suppliers: We obtain pharmaceutical and other products from manufacturers, none of which accounted for more than approximately 8% of our purchases in 2010. The loss of a supplier could adversely affect our business if alternate sources of supply are unavailable. We believe that our relationships with our suppliers on the whole are good. The ten largest suppliers in 2010 accounted for approximately 46% of our purchases.

A significant portion of our distribution arrangements with the manufacturers provides us compensation based on a percentage of our purchases. In addition, we have certain distribution arrangements with branded pharmaceutical manufacturers that include an inflation-based compensation component whereby we benefit when the manufacturers increase their prices as we sell our existing inventory at the new higher prices. For these manufacturers, a reduction in the frequency and magnitude of price increases, as well as restrictions in the amount of inventory available to us, could have a material adverse impact on our gross profit margin.

Research and Development: Our development expenditures primarily consist of our investment in software held for sale. We spent \$451 million, \$438 million and \$420 million for development activities in 2010, 2009 and 2008 and of these amounts, we capitalized 17% for each of the last three years. Development expenditures are primarily incurred by our Technology Solutions segment. Our Technology Solutions segment’s product development efforts apply computer technology and installation methodologies to specific information processing needs of hospitals and other customers. We believe that a substantial and sustained commitment to such expenditures is important to the long-term success of this business. Additional information regarding our development activities is included in Financial Note 1, “Significant Accounting Policies,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Environmental Regulation: Our operations are subject to regulation under various federal, state, local and foreign laws concerning the environment, including laws addressing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. We could incur substantial costs, including cleanup costs, fines and civil or criminal sanctions and third-party damage or personal injury claims, if in the future we were to violate or become liable under environmental laws.

We are committed to maintaining compliance with all environmental laws applicable to our operations, products and services and to reducing our environmental impact across all aspects of our business. We meet this commitment through an environmental strategy and sustainability program.

We sold our chemical distribution operations in 1987 and retained responsibility for certain environmental obligations. Agreements with the Environmental Protection Agency and certain states may require environmental assessments and cleanups at several closed sites. These matters are described further in Financial Note 18, “Other Commitments and Contingent Liabilities,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

The liability for environmental remediation and other environmental costs is accrued when the Company considers it probable and can reasonably estimate the costs. Environmental costs and accruals, including that related to our legacy chemical distribution operations, are presently not material to our operations or financial position. Although there is no assurance that existing or future environmental laws applicable to our operations or products will not have a material adverse impact on our operations or financial condition, we do not currently anticipate material capital expenditures for environmental matters. Other than the expected expenditures that may be required in connection with our legacy chemical distribution operations, we do not anticipate making substantial capital expenditures either for environmental issues, or to comply with environmental laws and regulations in the future. The amount of our capital expenditures for environmental compliance was not material in 2010 and is not expected to be material in the next year.

McKESSON CORPORATION

Employees: On March 31, 2010 and 2009, we employed approximately 32,500 persons compared to 32,900 in 2008.

Financial Information About Foreign and Domestic Operations: Information as to foreign and domestic operations is included in Financial Notes 1 and 21, “Significant Accounting Policies” and “Segments of Business,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Forward-Looking Statements

This Annual Report on Form 10-K, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of Part II of this report and the “Risk Factors” in Item 1A of Part I of this report, contains forward-looking statements within the meaning of section 27A of the Securities Act of 1933, as amended and section 21E of the Securities Exchange Act of 1934, as amended. Some of these statements can be identified by use of forward-looking words such as “believes,” “expects,” “anticipates,” “may,” “will,” “should,” “seeks,” “approximately,” “intends,” “plans” or “estimates,” or the negative of these words, or other comparable terminology. The discussion of financial trends, strategy, plans or intentions may also include forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected, anticipated, or implied. Although it is not possible to predict or identify all such risks and uncertainties, they may include, but are not limited to, the factors discussed in Item 1A of Part I of this report under “Risk Factors.” The reader should not consider the list to be a complete statement of all potential risks and uncertainties.

These and other risks and uncertainties are described herein and in other information contained in our publicly available SEC filings and press releases. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date such statements were first made. Except to the extent required by federal securities laws, we undertake no obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof, or to reflect the occurrence of unanticipated events.

Item 1A. Risk Factors

The risks described below could have a material adverse impact on our financial position, results of operations, liquidity and cash flows. Although it is not possible to predict or identify all such risks and uncertainties, they may include, but are not limited to, the factors discussed below. Our business operations could also be affected by additional factors that are not presently known to us or that we currently consider not to be material to our operations. The reader should not consider this list to be a complete statement of all risks and uncertainties.

We are subject to legal proceedings that could have a material adverse impact on our financial position and results of operations.

From time-to-time and in the ordinary course of our business, we and certain of our subsidiaries may become involved in various legal proceedings involving antitrust, commercial, employment, environmental, intellectual property, regulatory, tort and other various claims. All such legal proceedings are inherently unpredictable and the outcome can result in excessive verdicts and/or injunctive relief that may affect how we operate our business or we may enter into settlements of claims for monetary damages. Future court decisions and legislative activity may increase the Company’s exposure to litigation and regulatory investigations. In some cases, substantial non-economic remedies or punitive damages may be sought. For some complaints filed against the Company, we are currently unable to estimate the remaining amount of possible losses that might be incurred should these legal proceedings be resolved against the Company.

McKESSON CORPORATION

The outcome of litigation and other legal matters is always uncertain and outcomes that are not justified by the evidence or existing law can occur. The Company believes that it has valid defenses to the legal matters pending against it and is defending itself vigorously. Nevertheless, it is possible that resolution of one or any combination of more than one legal matter could result in a material adverse impact on our financial position or results of operations. For example, we are involved in a number of legal proceedings described in Financial Note 18, "Other Commitments and Contingent Liabilities," to the accompanying consolidated financial statements which could have such an impact, including class actions and other legal proceedings alleging that we engaged in illegal conduct that caused average wholesale prices to rise for certain prescription drugs during specified periods.

Litigation is costly, time-consuming and disruptive to normal business operations. The defense of these matters could also result in continued diversion of our management's time and attention away from business operations, which could also harm our business. Even if these matters are not resolved against us, the uncertainty and expense associated with unresolved legal proceedings could harm our business and reputation. For additional information regarding certain of the legal proceedings in which we are involved, see Financial Note 18, "Other Commitments and Contingent Liabilities," to the accompanying consolidated financial statements.

Changes in the United States healthcare environment could have a material adverse impact on our results of operations.

Our products and services are primarily intended to function within the structure of the healthcare financing and reimbursement system currently being used in the United States. In recent years, the healthcare industry has changed significantly in an effort to reduce costs. These changes include increased use of managed care, cuts in Medicare and Medicaid reimbursement levels, consolidation of pharmaceutical and medical-surgical supply distributors and the development of large, sophisticated purchasing groups.

We expect the healthcare industry to continue to change significantly in the future. Some of these changes, such as adverse changes in government funding of healthcare services, legislation or regulations governing the privacy of patient information or the delivery or pricing of pharmaceuticals and healthcare services or mandated benefits, may cause healthcare industry participants to greatly reduce the amount of our products and services they purchase or the price they are willing to pay for our products and services.

Changes in the healthcare industry's or our pharmaceutical suppliers' pricing, selling, inventory, distribution or supply policies or practices, or changes in our customer mix could also significantly reduce our revenues and net income. Due to the diverse range of healthcare supply management and healthcare information technology products and services that we offer, such changes could have a material adverse impact on our results of operations, while not affecting some of our competitors who offer a narrower range of products and services.

The majority of our U.S. pharmaceutical distribution business' agreements with manufacturers are structured to ensure that we are appropriately and predictably compensated for the services we provide; however, failure to successfully renew these contracts in a timely and favorable manner could have a material adverse impact on our results of operations.

Generic Pharmaceuticals: Healthcare and public policy trends indicate that the number of generic drugs will increase over the next few years as a result of the expiration of certain drug patents. In recent years, our financial results have improved from our generic drug offering programs. An increase or a decrease in the availability or changes in pricing or reimbursement of these generic drugs could have a material adverse impact on our results of operations.

Generic drug manufacturers are increasingly challenging the validity or enforceability of patents on branded pharmaceutical products. During the pendency of these legal challenges, a generics manufacturer may begin manufacturing and selling a generic version of the branded product prior to the final resolution to its legal challenge over the branded product's patent. To the extent we source and distribute such generic products launched "at risk," the brand-name company could assert infringement claims against us. While we generally obtain indemnification against such claims from generic manufacturers as a condition of distributing their products, there can be no assurances that these rights will be adequate or sufficient to protect us.

McKESSON CORPORATION

International Sourcing: We may experience difficulties and delays inherent in sourcing products and contract manufacturing from foreign countries, including, but not limited to, (1) difficulties in complying with the requirements of applicable federal, state and local governmental authorities in the United States and of foreign regulatory authorities, (2) inability to increase production capacity commensurate with demand or the failure to predict market demand (3) other manufacturing or distribution problems including changes in types of products produced, limits to manufacturing capacity due to regulatory requirements or physical limitations that could impact continuous supply and (4) damage to our reputation due to real or perceived quality issues. Manufacturing difficulties could result in manufacturing shutdowns, product shortages and delays in product manufacturing.

Pedigree Tracking: There have been increasing efforts by various levels of government agencies, including state boards of pharmacy and comparable government agencies, to regulate the pharmaceutical distribution system in order to prevent the introduction of counterfeit, adulterated and/or mislabeled drugs into the pharmaceutical distribution system (“pedigree tracking”). Certain states have adopted or are considering laws and regulations that are intended to protect the integrity of the pharmaceutical distribution system while other government agencies are currently evaluating their recommendations. Florida has adopted pedigree tracking requirements and California has enacted a law requiring chain of custody technology using radio frequency tagging and electronic pedigrees, which will be effective for us in July 2016. Final regulations under the federal Prescription Drug Marketing Act requiring pedigree and chain of custody tracking in certain circumstances became effective December 1, 2006. This latter regulation has been challenged in a case brought by secondary distributors. A preliminary injunction was issued by the United States District Court for the Eastern District of New York that temporarily enjoined implementation of this regulation. This injunction was affirmed by the Court of Appeals for the Second Circuit in July 2008. In December 2008, both parties agreed to delay this litigation, pending the outcome of certain U.S. congressional legislative initiatives. In addition, the U.S. Food and Drug Administration (“FDA”) Amendments Act of 2007, which went into effect on October 1, 2007, requires the FDA to establish standards and identify and validate effective technologies for the purpose of securing the pharmaceutical supply chain against counterfeit drugs. These standards may include any track-and-trace or authentication technologies, such as radio frequency identification devices and other similar technologies. On March 26, 2010, the FDA released the Serialized Numerical Identifier (“SNI”) guidance for manufacturers who serialize pharmaceutical packaging. We expect to be able to accommodate these SNI regulations in our distribution operations. Nonetheless, these pedigree tracking laws and regulations could increase the overall regulatory burden and costs associated with our pharmaceutical distribution business, and could have a material adverse impact on our results of operations.

Healthcare Fraud: We are subject to extensive and frequently changing local, state and federal laws and regulations relating to healthcare fraud. The federal government continues to strengthen its position and scrutiny over practices involving healthcare fraud affecting Medicare, Medicaid and other government healthcare programs. Furthermore, our relationships with pharmaceutical and medical-surgical product manufacturers and healthcare providers subject our business to laws and regulations on fraud and abuse, which among other things (1) prohibit persons from soliciting, offering, receiving or paying any remuneration in order to induce the referral of a patient for treatment or for inducing the ordering or purchasing of items or services that are in any way paid for by Medicare, Medicaid or other government-sponsored healthcare programs, (2) impose a number of restrictions upon referring physicians and providers of designated health services under Medicare and Medicaid programs and (3) prohibit the knowing submission of a false or fraudulent claim for payment to a federal health care program such as Medicare and Medicaid. Legislative provisions relating to healthcare fraud and abuse give federal enforcement personnel substantially increased funding, powers and remedies to pursue suspected fraud and abuse. Many of the regulations applicable to us, including those relating to marketing incentives, are vague or indefinite and have not been interpreted by the courts. They may be interpreted or applied by a prosecutorial, regulatory, or judicial authority in a manner that could require us to make changes in our operations. If we fail to comply with applicable laws and regulations, we could suffer civil and criminal penalties, including the loss of licenses or our ability to participate in Medicare, Medicaid and other federal and state healthcare programs.

McKESSON CORPORATION

Claims Transmissions: Medical billing and collection activities are governed by numerous federal and state civil and criminal laws that pertain to companies that provide billing and collection services or that provide consulting services in connection with billing and collection activities. In connection with these laws, we may be subjected to federal or state government investigations and possible penalties may be imposed upon us, false claims actions may have to be defended, private payors may file claims against us and we may be excluded from Medicare, Medicaid or other government-funded healthcare programs. Any such proceeding or investigation could have a material adverse impact on our results of operations.

E-Prescribing: The use of our solutions by physicians for electronic prescribing, electronic routing of prescriptions to pharmacies and dispensing is governed by federal and state law. States have differing prescription format requirements, which we have programmed into our software. In addition, in November 2005, the U.S. Department of Health and Human Services (the “HHS”) announced regulations by the Centers for Medicare and Medicaid Services (“CMS”) related to “E-Prescribing and the Prescription Drug Program” (“E-Prescribing Regulations”). These E-Prescribing Regulations were mandated by the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The E-Prescribing Regulations set forth standards for the transmission of electronic prescriptions. These standards are detailed and significant and cover not only transactions between prescribers and dispensers for prescriptions but also electronic eligibility, benefits inquiries, drug formulary and benefit coverage information. Our efforts to provide solutions that enable our clients to comply with these regulations could be time consuming and expensive.

Reimbursements: Both our own profit margins and the profit margins of our customers may be adversely affected by laws and regulations reducing reimbursement rates for pharmaceuticals and/or medical treatments or services or changing the methodology by which reimbursement levels are determined. For example, the Deficit Reduction Act of 2005 (“DRA”) was intended to reduce net Medicare and Medicaid spending by approximately \$11 billion over five years. Effective January 1, 2007, the DRA changed the federal upper payment limit for Medicaid reimbursement from 150% of the lowest published price for generic pharmaceuticals (which is usually the average wholesale price) to 250% of the lowest average manufacturer price (“AMP”). On July 17, 2007, CMS published a final rule implementing these provisions and clarifying, among other things, the AMP calculation methodology and the DRA provision requiring manufacturers to publicly report AMP for branded and generic pharmaceuticals. On December 19, 2007, the United States District Court for the District of Columbia issued a preliminary injunction prohibiting use of the AMP calculation in connection with Medicaid reimbursement pending resolution of a lawsuit claiming that CMS had acted unlawfully in adopting the rule. On July 15, 2008, the U.S. Congress enacted the Medicaid Improvements for Patients and Providers Acts of 2008 (“MIPPA,”) which delayed the adoption of CMS’s final rule and prevented CMS from publishing AMP data until October 1, 2009. In addition, Medicare, Medicaid and the SCHIP Extension Act of 2007 require CMS to adjust the calculation of the Medicare Part B drug average sales price (“ASP”) to an actual sales volume basis. We expect that the use of an AMP benchmark and the revised ASP calculations would result in a reduction in the Medicaid reimbursement rates to our customers for certain generic pharmaceuticals, which could indirectly impact the prices that we can charge our customers and cause corresponding declines in our profitability. There can be no assurance that the changes under the DRA would not have a material adverse impact on our results of operations.

Interoperability Standards: There is increasing demand among customers, industry groups and government authorities that healthcare software and systems provided by various vendors be compatible with each other. This need for interoperability is leading to the development of standards by various groups. The Certification Commission for Healthcare Information Technology (“CCHIT”) has developed a set of criteria defining levels of interoperability, functionality and security for the industry, which are still being modified and refined. Various federal, state and foreign government agencies are also developing standards that could become mandatory for systems purchased by these agencies. For example, the Health Information Technology for Economic and Clinical Health (HITECH) Act portion of the American Recovery and Reinvestment Act (“ARRA”) of 2009 requires meaningful use of “certified” healthcare information technology products by healthcare providers in order to receive stimulus funds from the federal government. We may incur increased development costs and delays in delivering solutions if we need to upgrade our software and systems to be in compliance with these varying and evolving standards. In addition, these changes may lengthen our sales and implementation cycle and we may incur costs in periods prior to the corresponding recognition of revenue. Delays in achieving certification under these evolving standards may result in postponement or cancellation of our customers’ decisions to purchase our products.

McKESSON CORPORATION

Healthcare Industry Consolidation: In recent years, the pharmaceutical suppliers have been subject to increasing consolidation. As a result, a small number of very large companies control a significant share of the market. Accordingly, we depend on fewer suppliers for our products and we are less able to negotiate price terms with the suppliers. Many healthcare organizations have consolidated to create larger healthcare enterprises with greater market power. If this consolidation trend continues, it could reduce the size of our target market and give the resulting enterprises greater bargaining power, which may lead to erosion of the prices for our products and services. In addition, when healthcare organizations combine they often consolidate infrastructure including IT systems and acquisition of our clients could erode our revenue base.

Our future results could be materially affected by a number of public health issues whether occurring in the United States or abroad.

Public health issues, whether occurring in the United States or abroad, could disrupt our operations, disrupt the operations of suppliers or customers, or have a broader adverse impact on consumer spending and confidence levels that would negatively affect our suppliers and customers. We have developed contingency plans to address infectious disease scenarios and the potential impact on our operations and will continue to update these plans as necessary. However, there can be no assurance that these plans will be effective in eliminating the negative impact of any such diseases on the Company's operating results. We may be required to suspend operations in some or all of our locations, which could have a material adverse impact on our business, financial condition and results of operations.

Changes in the Canadian healthcare environment could have a material adverse impact on our results of operations.

Similar to the United States, the Canadian healthcare industry has undergone significant changes in recent years to reduce costs. The provincial governments provide partial funding for the purchase of pharmaceuticals and independently regulate the financing and reimbursement of drugs. The Ontario government revised the drug distribution system in 2006 with the passage of the Transparent Drug System for Patients Act and has recently announced a review of that legislation in an attempt to further reduce costs. Some of the changes being considered would adversely affect the distribution of drugs, pricing for prescription drugs and reduced funding for healthcare services. Other provinces are considering similar changes, which would lower pharmaceutical pricing and service fees. Such changes could significantly reduce our Canadian revenue and operating profit.

Competition may erode our profit.

In every area of healthcare distribution operations, our Distribution Solutions segment faces strong competition, both in price and service, from national, regional and local full-line, short-line and specialty wholesalers, service merchandisers, self-warehousing chains, manufacturers engaged in direct distribution and large payor organizations. In addition, this segment faces competition from various other service providers and from pharmaceutical and other healthcare manufacturers (as well as other potential customers of the segment) which may from time-to-time decide to develop, for their own internal needs, supply management capabilities that would otherwise be provided by the segment. Price, quality of service, and in some cases, convenience to the customer are generally the principal competitive elements in this segment.

Our Technology Solutions segment experiences substantial competition from many firms, including other software services firms, consulting firms, shared service vendors, certain hospitals and hospital groups, payors, care management organizations, hardware vendors and Internet-based companies with technology applicable to the healthcare industry. Competition varies in size from small to large companies, in geographical coverage and in scope and breadth of products and services offered. These competitive pressures could have a material adverse impact on our results of operations.

McKESSON CORPORATION

Our Distribution Solutions segment is subject to inflation in branded pharmaceutical prices and deflation in generic pharmaceutical prices, which subjects us to risks and uncertainties.

Inflation can be the partial basis of some of our U.S. pharmaceutical distribution business' agreements with branded pharmaceutical manufacturers. If the frequency or rate of branded price increases slows, it could have a material adverse impact on our results of operations. In addition, we also distribute generic pharmaceuticals, which are subject to price deflation. An acceleration of the frequency or size of generic price decreases could also have a material adverse impact on our results of operations.

Substantial defaults in payment, a material reduction in purchases or the loss of a large customer or group purchasing organization could have a material adverse impact on our financial condition, results of operations and liquidity.

In recent years, a significant portion of our revenue growth has been with a limited number of large customers. During 2010, sales to our ten largest customers accounted for approximately 53% of our total consolidated revenues. Sales to our two largest customers, CVS and Rite Aid, represented approximately 15% and 12% of our total consolidated revenues. At March 31, 2010, accounts receivable from our ten largest customers were approximately 45% of total accounts receivable. Accounts receivable from CVS and Rite Aid were approximately 14% and 10% of total accounts receivable. As a result, our sales and credit concentration is significant. We also have agreements with group purchasing organizations ("GPOs"), each of which functions as a purchasing agent on behalf of member hospitals, pharmacies and other healthcare providers. A default in payment, a material reduction in purchases from these, or any other large customers or the loss of a large customer or GPO could have a material adverse impact on our financial condition, results of operations and liquidity.

We generally sell product to our customers on credit that is short-term in nature and unsecured. Any adverse change in general economic conditions can adversely reduce sales to our customers, affect consumer buying practices or cause our customers to delay or be unable to pay accounts receivable owed to us, which would reduce our revenue growth and cause a decrease in our profitability and cash flow. Further, interest rate fluctuations and changes in capital market conditions may affect our customers' ability to obtain credit to finance their business under acceptable terms, which would reduce our revenue growth and cause a decrease in our profitability.

Our Distribution Solutions segment is dependent upon sophisticated information systems. The implementation delay, malfunction, or failure of these systems for any extended period of time could have a material adverse impact on our business.

We rely on sophisticated information systems in our business to obtain, rapidly process, analyze and manage data to, (1) facilitate the purchase and distribution of thousands of inventory items from numerous distribution centers, (2) receive, process and ship orders and handle other product and services on a timely basis, (3) manage the accurate billing and collections for thousands of customers and (4) process payments to suppliers. If these systems are interrupted, damaged by unforeseen events or fail for any extended period of time, we could have a material adverse impact on our results of operations.

Reduced capacity in the commercial property insurance market exposes us to potential loss.

In order to provide prompt and complete service to our major Distribution Solutions segment's customers, we maintain significant product inventory at certain of our distribution centers. While we seek to maintain property insurance coverage in amounts sufficient for our business, there can be no assurance that our property insurance will be adequate or available on acceptable terms. One or more large casualty losses caused by fire, earthquake or other natural disaster in excess of our coverage limits could have an adverse impact on our results of operations.

McKESSON CORPORATION

We could become subject to liability claims that are not adequately covered by our insurance and may have to pay damages and other expenses which could have a material adverse impact on our results of operations.

Our business exposes us to risks that are inherent in the distribution, manufacturing, dispensing of pharmaceuticals and medical-surgical supplies, the provision of ancillary services, the conduct of our payor businesses (which include disease management programs and our nurse triage services) and the provision of products that assist clinical decision-making and relate to patient medical histories and treatment plans. If customers assert liability claims against our products and/or services, any ensuing litigation, regardless of outcome, could result in a substantial cost to us, divert management's attention from operations and decrease market acceptance of our products. We attempt to limit our liability to customers by contract; however, the limitations of liability set forth in the contracts may not be enforceable or may not otherwise protect us from liability for damages. We also maintain general liability coverage; however, this coverage may not continue to be available on acceptable terms, may not be available in sufficient amounts to cover one or more large claims against us and may include larger self-insured retentions or exclusions for certain products. In addition, the insurer might disclaim coverage as to any future claim. A successful product or professional liability claim not fully covered by our insurance could have a material adverse impact on our results of operations.

The failure of our healthcare technology businesses to attract and retain customers due to challenges in software product integration or to keep pace with technological advances may significantly reduce our results of operations.

Our healthcare technology businesses, the bulk of which resides in our Technology Solutions segment, deliver enterprise-wide clinical, patient care, financial, supply chain, strategic management software solutions and pharmacy automation to hospitals, physicians, homecare providers, retail and mail order pharmacies and payors. Challenges in integrating software products could impair our ability to attract and retain customers and could have a material adverse impact on our consolidated results of operations and a disproportionate impact on the results of operations of our Technology Solutions segment.

Future advances in the healthcare information systems industry could lead to new technologies, products or services that are competitive with the technology products and services offered by our various businesses. Such technological advances could also lower the cost of such products and services or otherwise result in competitive pricing pressure or render our products obsolete. The success of our technology businesses will depend, in part, on our ability to be responsive to technological developments, legislative initiatives, pricing pressures and changing business models. To remain competitive in the evolving healthcare information systems marketplace, our technology businesses must also develop new products on a timely basis. The failure to develop competitive products and to introduce new products on a timely basis could curtail the ability of our technology businesses to attract and retain customers and thereby could have a material adverse impact on our results of operations.

The loss of third party licenses utilized by our technology businesses may have a material adverse impact on our results of operations.

We license the rights to use certain technologies from third-party vendors to incorporate in or complement our various healthcare technology products and solutions, which are primarily offered through our Technology Solutions segment. These licenses are generally nonexclusive, must be renewed periodically by mutual consent and may be terminated if we breach the terms of the license. As a result, we may have to discontinue, delay or reduce product shipments until we obtain equivalent technology, which could hurt our business. Our competitors may obtain the right to use any of the technology covered by these licenses and use the technology to compete directly with us. In addition, if our vendors choose to discontinue support of the licensed technology in the future, we may not be able to modify or adapt our own products.

McKESSON CORPORATION

Proprietary technology protections may not be adequate and products may be found to infringe the rights of third parties.

We rely on a combination of trade secret, patent, copyright and trademark laws, nondisclosure and other contractual provisions and technical measures to protect our proprietary rights in our products and solutions. There can be no assurance that these protections will be adequate or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology. In addition, despite protective measures, we may be subject to unauthorized use of our technology due to copying, reverse-engineering or other infringement. Although we believe that our products do not infringe the proprietary rights of third parties, from time-to-time third parties have asserted infringement claims against us and there can be no assurance that third parties will not assert infringement claims against us in the future. If we were found to be infringing others' rights, we may be required to pay substantial damage awards and forced to develop non-infringing technology, obtain a license or cease selling the products that contain the infringing technology. Additionally, we may find it necessary to initiate litigation to protect our trade secrets, to enforce our patent, copyright and trademark rights and to determine the scope and validity of the proprietary rights of others. These types of litigation can be costly and time consuming. These litigation expenses, damage payments or costs of developing replacement technology could have a material adverse impact on our results of operations.

System errors or failures of our products to conform to specifications could cause unforeseen liabilities or injury, harm our reputation and have a material adverse impact on our results of operations.

The software and software systems ("systems") that we sell or operate are very complex. As with complex systems offered by others, our systems may contain errors, especially when first introduced. For example, our Technology Solutions segment's business systems are intended to provide information for healthcare providers in providing patient care. Therefore, users of our systems have a greater sensitivity to errors than the general market for software products. If our software or systems lead to faulty clinical decisions or injury to patients, we could be subject to claims or litigation by our clients, clinicians or patients. In addition, such failures could damage our reputation and could negatively affect future sales.

Failure of a client's system to perform in accordance with our documentation could constitute a breach of warranty and could require us to incur additional expense in order to make the system comply with the documentation. If such failure is not remedied in a timely manner, it could constitute a material breach under a contract, allowing the client to cancel the contract, obtain refunds of amounts previously paid or assert claims for significant damages.

Various risks could interrupt customers' access to their data residing in our service center, exposing us to significant costs.

We provide remote hosting services that involve operating both our software and the software of third-party vendors for our customers. The ability to access the systems and the data that we host and support on demand is critical to our customers. Our operations and facilities are vulnerable to interruption and/or damage from a number of sources, many of which are beyond our control, including, without limitation, (1) power loss and telecommunications failures, (2) fire, flood, hurricane and other natural disasters, (3) software and hardware errors, failures or crashes and (4) computer viruses, hacking and similar disruptive problems. We attempt to mitigate these risks through various means including disaster recovery plans, separate test systems and change control and system security measures, but our precautions may not protect against all problems. If customers' access is interrupted because of problems in the operation of our facilities, we could be exposed to significant claims, particularly if the access interruption is associated with problems in the timely delivery of medical care. We must maintain disaster recovery and business continuity plans that rely upon third-party providers of related services and if those vendors fail us at a time that our center is not operating correctly, we could incur a loss of revenue and liability for failure to fulfill our contractual service commitments. Any significant instances of system downtime could negatively affect our reputation and ability to sell our remote hosting services.

McKESSON CORPORATION

Regulation of our distribution businesses and regulation of our computer-related products could impose increased costs, delay the introduction of new products and negatively impact our business.

The healthcare industry is highly regulated. We are subject to various local, state, federal, foreign and transnational laws and regulations, which include the operating and security standards of the Drug Enforcement Administration (the “DEA”), the FDA, various state boards of pharmacy, state health departments, the HHS, CMS and other comparable agencies. Certain of our subsidiaries may be required to register for permits and/or licenses with, and comply with operating and security standards of the DEA, the FDA, HHS, various state boards of pharmacy, state health departments and/or comparable state agencies as well as foreign agencies and certain accrediting bodies depending upon the type of operations and location of product distribution, manufacturing and sale.

In addition, the FDA has increasingly focused on the regulation of computer products and computer-assisted products as medical devices under the federal Food, Drug and Cosmetic Act. If the FDA chooses to regulate any of our products as medical devices, it can impose extensive requirements upon us. If we fail to comply with the applicable requirements, the FDA could respond by imposing fines, injunctions or civil penalties, requiring recalls or product corrections, suspending production, refusing to grant pre-market clearance of products, withdrawing clearances and initiating criminal prosecution. Any final FDA policy governing computer products, once issued, may increase the cost and time to market new or existing products or may prevent us from marketing our products.

We regularly receive requests for information and occasionally subpoenas from government authorities. Although we believe that we are in compliance, in all material respects, with applicable laws and regulations, there can be no assurance that a regulatory agency or tribunal would not reach a different conclusion concerning the compliance of our operations with applicable laws and regulations. In addition, there can be no assurance that we will be able to maintain or renew existing permits, licenses or any other regulatory approvals or obtain without significant delay future permits, licenses or other approvals needed for the operation of our businesses. Any noncompliance by us with applicable laws and regulations or the failure to maintain, renew or obtain necessary permits and licenses could have a material adverse impact on our results of operations.

Regulations relating to confidentiality of sensitive personal information and to format and data content standards could depress the demand for our products and impose significant product redesign costs and unforeseen liabilities on us.

State, federal and foreign laws regulate the confidentiality of sensitive personal information and the circumstances under which such information may be released. These regulations govern the disclosure and use of confidential personal and patient medical record information and require the users of such information to implement specified security measures. Regulations currently in place, including regulations governing electronic health data transmissions, continue to evolve and are often unclear and difficult to apply. Although our systems are being updated and modified to comply with the current requirements of state and foreign laws and the Federal Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) and the HITECH Act, evolving laws and regulations in this area could restrict the ability of our customers to obtain, use or disseminate patient information or could require us to incur significant additional costs to re-design our products in a timely manner, either of which could have a material adverse impact on our results of operations. In addition, in February 2010, certain provisions of the federal security and privacy standards were extended to us in our capacity as a business associate of our payor and provider customers. Furthermore, failure to maintain confidentiality of sensitive personal information in accordance with the applicable regulatory requirements could expose us to breach of contract claims, fines and penalties, costs for remediation and harm to our reputation.

McKESSON CORPORATION

The length of our sales and implementation cycles for our Technology Solutions segment could have a material adverse impact on our future results of operations.

Many of the solutions offered by our Technology Solutions segment have long sales and implementation cycles, which could range from a few months to two years or more from initial contact with the customer to completion of implementation. How and when to implement, replace, or expand an information system, or modify or add business processes, are major decisions for healthcare organizations. Many of the solutions we provide typically require significant capital expenditures and time commitments by the customer. Recent legislation that provides incentives to purchase health information systems imposes strict conditions on these incentives, including the requirement that purchased systems must comply with applicable federally-endorsed standards. To the extent these standards are narrowly construed or delayed in publication, our customers may delay or cancel their purchase decisions. Any decision by our customers to delay or cancel implementation could have a material adverse impact on our results of operations. Furthermore, delays or failures to meet milestones established in our agreements may result in a breach of contract, termination of the agreement, damages and/or penalties as well as a reduction in our margins or a delay in our ability to recognize revenue.

We may be required to record a significant charge to earnings if our goodwill or intangible assets become impaired.

We are required under U. S. generally accepted accounting principles (“GAAP”) to test our goodwill for impairment, annually or more frequently if indicators for potential impairment exist. Indicators that are considered include significant changes in performance relative to expected operating results, significant changes in the use of the assets, significant negative industry, or economic trends or a significant decline in the Company’s stock price and/or market capitalization for a sustained period of time. In addition, we periodically review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Factors that may be considered a change in circumstances indicating that the carrying value of our intangible assets may not be recoverable include slower growth rates and the loss of a significant customer. We may be required to record a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill or intangible assets is determined. This could have a material adverse impact on our results of operations. There are inherent uncertainties in management’s estimates, judgments and assumptions used in assessing recoverability of goodwill and intangible assets. Any changes in key assumptions, including failure to meet business plans, a further deterioration in the market or other unanticipated events and circumstances, may affect the accuracy or validity of such estimates and could potentially result in an impairment charge.

Our foreign operations may subject us to a number of operating, economic, political and regulatory risks that may have a material adverse impact on our financial condition and results of operations.

We have operations based in foreign countries, including Canada, the United Kingdom, other European countries, Asia Pacific and Israel and we have a large investment in Mexico. In the future, we look to continue to grow our foreign operations both organically and through acquisitions and investments; however, increasing our foreign operations carries additional risks. Operations outside of the United States may be affected by changes in trade protection laws, policies, measures and other regulatory requirements affecting trade and investment; unexpected changes in regulatory requirements for software, social, political, labor or economic conditions in a specific country or region; import/export regulations in both the United States and foreign countries and difficulties in staffing and managing foreign operations. Political changes and natural disasters, some of which may be disruptive, can interfere with our supply chain, our customers and all of our activities in a particular location. Additionally, foreign operations expose us to foreign currency fluctuations that could adversely impact our results of operations based on the movements of the applicable foreign currency exchange rates in relation to the U.S. dollar.

Foreign operations are also subject to risks of violations of laws prohibiting improper payments and bribery, including the U.S. Foreign Corrupt Practices Act and similar regulations in foreign jurisdictions. Failure to comply with these laws could subject us to civil and criminal penalties that could have a material adverse impact on our financial condition and results of operations.

McKESSON CORPORATION

Tax legislation initiatives or challenges to our tax positions could have a material adverse impact on our results of operations.

We are a large multinational corporation with operations in the United States and international jurisdictions. As such, we are subject to the tax laws and regulations of the United States federal, state and local governments and of many international jurisdictions. From time-to-time, various legislative initiatives may be proposed that could adversely affect our tax positions. There can be no assurance that our effective tax rate will not be adversely affected by these initiatives. In addition, United States federal, state and local, as well as international, tax laws and regulations are extremely complex and subject to varying interpretations. Although we believe that our historical tax positions are sound and consistent with applicable laws, regulations and existing precedent, there can be no assurance that these tax positions will not be challenged by relevant tax authorities or that we would be successful in any such challenge.

Our business could be hindered if we are unable to complete and integrate acquisitions successfully.

An element of our strategy is to identify, pursue and consummate acquisitions that either expand or complement our business. Integration of acquisitions involves a number of risks including the diversion of management's attention to the assimilation of the operations of businesses we have acquired; difficulties in the integration of operations and systems; the realization of potential operating synergies; the assimilation and retention of the personnel of the acquired companies; accounting, regulatory or compliance issues that could arise, including internal control over financial reporting; challenges in retaining the customers of the combined businesses and a potential material adverse impact on operating results. In addition, we may potentially require additional financing in order to fund future acquisitions, which may or may not be attainable. If we are unable to successfully complete and integrate strategic acquisitions in a timely manner, our business and our growth strategies could be negatively affected.

Continued volatility and disruption to the global capital and credit markets may adversely affect our ability to access credit, our cost of credit and the financial soundness of our customers and suppliers.

Volatility and disruption in the global capital and credit markets, including the bankruptcy or restructuring of certain financial institutions, reduced lending activity by other financial institutions, decreased liquidity and increased costs in the commercial paper market and the reduced market for securitizations, may adversely affect the availability and cost of credit already arranged and the availability, terms and cost of credit in the future, including any arrangements to renew or replace our current credit or financing arrangements. Although we believe that our operating cash flow, financial assets, current access to capital and credit markets, including our existing credit and sales facilities, will give us the ability to meet our financing needs for the foreseeable future, there can be no assurance that continued or increased volatility and disruption in the global capital and credit markets will not impair our liquidity or increase our costs of borrowing.

Our \$1.1 billion accounts receivable sales facility is generally renewed annually and will expire in mid-May 2010. Although we did not use this facility in 2010, we have historically used it to fund working capital requirements, as needed. We anticipate renewing this facility before its expiration. If our use of the current accounts receivable sales facility is characterized as a secured borrowing rather than a sale for U.S. GAAP purposes under accounting pronouncements that will become effective for us in 2011, we may be required to consider the funds obtained by us under this facility and the related liens in the covenant compliance calculations for certain of our other financing arrangements. Although we believe we will be able to renew this facility, there is no assurance that we will be able to do so.

Our business could also be negatively impacted if our customers or suppliers experience disruptions resulting from tighter capital and credit markets or a slowdown in the general economy. As a result, customers may modify, delay or cancel plans to purchase or implement our products or services and suppliers may increase their prices, reduce their output or change their terms of sale. Additionally, if customers' or suppliers' operating and financial performance deteriorates or if they are unable to make scheduled payments or obtain credit, customers may not be able to pay, or may delay payment of accounts receivable owed to us and suppliers may restrict credit, impose different payment terms or be unable to make payments due to us for fees, returned products or incentives. Any inability of customers to pay us for our products and services or any demands by suppliers for different payment terms may have a material adverse impact on our results of operations and cash flow.

McKESSON CORPORATION

Changes in accounting standards issued by the Financial Accounting Standards Board (“FASB”) or other standard-setting bodies may adversely affect our financial statements.

Our financial statements are subject to the application of U.S. GAAP, which is periodically revised and/or expanded. Accordingly, from time-to-time we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the FASB and the SEC. It is possible that future accounting standards we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse impact on our results of operations and financial condition.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Because of the nature of our principal businesses, our plant, warehousing, office and other facilities are operated in widely dispersed locations, mostly throughout the U.S. and Canada. The warehouses are typically owned or leased on a long-term basis. We consider our operating properties to be in satisfactory condition and adequate to meet our needs for the next several years without making capital expenditures materially higher than historical levels. Information as to material lease commitments is included in Financial Note 16, “Lease Obligations,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Item 3. Legal Proceedings

Certain legal proceedings in which we are involved are discussed in Financial Note 18, “Other Commitments and Contingent Liabilities,” to our consolidated financial statements appearing in this Annual Report on Form 10-K.

Item 4. Reserved

Not applicable.

McKESSON CORPORATION**Executive Officers of the Registrant**

The following table sets forth information regarding the executive officers of the Company, including their principal occupations during the past five years. The number of years of service with the Company includes service with predecessor companies.

There are no family relationships between any of the executive officers or directors of the Company. The executive officers are elected on an annual basis generally and their term expires at the first meeting of the Board of Directors ("Board") following the annual meeting of stockholders, or until their successors are elected and have qualified, or until death, resignation or removal, whichever is sooner.

<u>Name</u>	<u>Age</u>	<u>Position with Registrant and Business Experience</u>
John H. Hammergren	51	Chairman of the Board since July 2002; President and Chief Executive Officer since April 2001; and a director since July 1999. Service with the Company – 14 years.
Jeffrey C. Campbell.....	49	Executive Vice President and Chief Financial Officer since April 2004; Senior Vice President and Chief Financial Officer from December 2003 to April 2004. Service with the Company – 6 years.
Patrick J. Blake.....	46	Executive Vice President and Group President since June 2009; President of McKesson Specialty Care Solutions from April 2006 to June 2009; President of Customer Operations for McKesson U.S. Pharmaceutical from October 2000 to April 2006. Service with the Company – 14 years.
Paul C. Julian.....	54	Executive Vice President and Group President since April 2004; Senior Vice President from August 1999 to April 2004. Service with the Company – 14 years.
Jorge L. Figueredo.....	49	Executive Vice President, Human Resources since May 2008; Senior Vice President, Human Resources, Dow Jones, Inc. from February 2007 to January 2008; President, International, Liz Claiborne Inc. from October 1984 to May 2006. Service with the Company – 2 years.
Marc E. Owen.....	50	Executive Vice President, Corporate Strategy and Business Development since April 2004; Senior Vice President, Corporate Strategy and Business Development from September 2001 to April 2004. Service with the Company – 9 years.
Laureen E. Seeger.....	48	Executive Vice President, General Counsel and Chief Compliance Officer since April 2010 (functionally has served as chief compliance officer since March 2006); Executive Vice President and General Counsel from July 2009 to April 2010; Executive Vice President, General Counsel and Secretary from March 2006 to July 2009; Vice President and General Counsel of McKesson Provider Technologies from February 2000 to March 2006. Service with the Company – 10 years.
Randall N. Spratt	58	Executive Vice President, Chief Technology Officer and Chief Information Officer since April 2009; Executive Vice President, Chief Information Officer from July 2005 to April 2009; Senior Vice President, Chief Process Officer, McKesson Provider Technologies from April 2003 to July 2005. Service with the Company – 24 years.

McKESSON CORPORATION

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters, Issuer Purchases of Equity Securities and Stock Price Performance Graph

- (a) *Market Information:* The principal market on which the Company's common stock is traded is the New York Stock Exchange ("NYSE").

The following table sets forth the high and low sales prices for our common stock as reported on NYSE for each quarterly period of the two most recently completed fiscal years:

	2010		2009	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First quarter	\$45.27	\$33.13	\$58.78	\$51.96
Second quarter	\$59.95	\$42.61	\$58.85	\$52.32
Third quarter	\$64.98	\$55.82	\$52.55	\$28.60
Fourth quarter	\$66.98	\$57.23	\$45.80	\$34.77

- (b) *Holders:* The number of record holders of the Company's common stock at March 31, 2010, was approximately 8,700.
- (c) *Dividends:* We declared regular cash dividends of \$0.48 per share (or \$0.12 per share per quarter) in the years ended March 31, 2010 and 2009.

The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon the Company's future earnings, financial condition, capital requirements and other factors.

- (d) *Securities Authorized for Issuance under Equity Compensation Plans:* Information relating to this item is provided under Part III, Item 12, to this Annual Report on Form 10-K.
- (e) *Share Repurchase Plans:* The following table provides information on the Company's share repurchases during the fourth quarter of 2010:

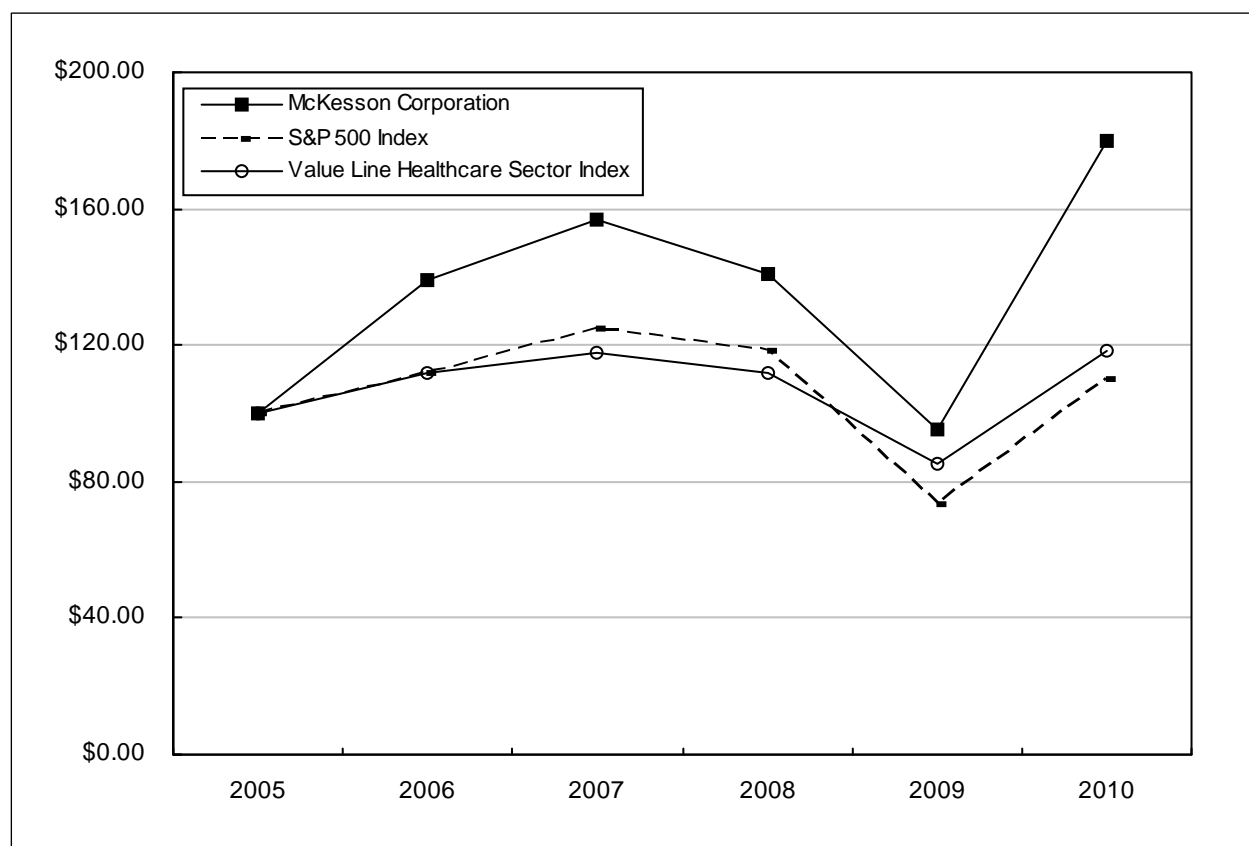
	Share Repurchases ⁽¹⁾			
	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
<i>(In millions, except price per share)</i>				
January 1, 2010 – January 31, 2010	—	\$ —	—	\$ 531
February 1, 2010 – February 28, 2010	—	—	—	531
March 1, 2010 – March 31, 2010	—	—	—	531
Total	—	—	—	531

- (1) This table does not include shares tendered to satisfy the exercise price in connection with cashless exercises of employee stock options or shares tendered to satisfy tax-withholding obligations in connection with employee equity awards.

McKESSON CORPORATION

In April 2008, the Board approved a plan to repurchase up to \$1.0 billion of the Company's common stock of which \$531 million remained available for future repurchases as of March 31, 2010. During the fourth quarter of 2010, the Company did not repurchase any shares of common stock. During 2010, the Company repurchased approximately 8 million shares of its common stock at an average price of \$41.47 for \$299 million. In April 2010, the Board authorized the repurchase of up to an additional \$1.0 billion of the Company's common stock. Stock repurchases may be made from time-to-time in open market transactions, privately negotiated transactions, through accelerated share repurchase programs, or by any combination of such methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations and other market and economic conditions.

- (f) *Stock Price Performance Graph**: The following graph compares the cumulative total stockholder return on the Company's common stock for the periods indicated with the Standard & Poor's 500 Index and the Value Line Healthcare Sector Index (composed of 154 companies in the health care industry, including the Company).



	March 31,					
	2005	2006	2007	2008	2009	2010
McKesson Corporation	\$ 100.00	\$ 138.80	\$ 156.61	\$ 140.65	\$ 95.11	\$ 179.99
S&P 500 Index	\$ 100.00	\$ 111.73	\$ 124.95	\$ 118.60	\$ 73.43	\$ 109.97
Value Line Healthcare Sector Index	\$ 100.00	\$ 111.54	\$ 117.82	\$ 111.76	\$ 85.43	\$ 118.37

* Assumes \$100 invested in McKesson's common stock and in each index on March 31, 2005 and that all dividends are reinvested.

McKESSON CORPORATION

Item 6. Selected Financial Data

FIVE-YEAR HIGHLIGHTS

	As of and for the Years Ended March 31,				
(In millions, except per share data and ratios)	2010	2009	2008	2007	2006
Operating Results					
Revenues	\$ 108,702	\$ 106,632	\$ 101,703	\$ 92,977	\$ 86,983
Percent change	1.9%	4.8%	9.4%	6.9%	10.0%
Gross profit	5,676	5,378	5,009	4,332	3,777
Income from continuing operations before income taxes	1,864	1,064	1,457	1,297	1,171
Income after income taxes					
Continuing operations	1,263	823	989	968	745
Discontinued operations	—	—	1	(55)	6
Net income	1,263	823	990	913	751
Financial Position					
Working capital	4,492	3,065	2,438	2,730	3,527
Days sales outstanding for: ⁽¹⁾					
Customer receivables	25	24	22	21	22
Inventories	34	31	33	32	29
Drafts and accounts payable	48	43	44	43	41
Total assets	28,189	25,267	24,603	23,943	20,961
Total debt, including capital lease obligations	2,297	2,512	1,797	1,958	991
Stockholders' equity	7,532	6,193	6,121	6,273	5,907
Property acquisitions	199	195	195	126	166
Acquisitions of businesses, net	18	358	610	1,938	589
Common Share Information					
Common shares outstanding at year-end	271	271	277	295	304
Shares on which earnings per common share were based					
Diluted	273	279	298	305	316
Basic	269	275	291	298	306
Diluted earnings per common share ⁽²⁾					
Continuing operations	\$ 4.62	\$ 2.95	\$ 3.32	\$ 3.17	\$ 2.36
Discontinued operations	—	—	—	(0.18)	0.02
Total	4.62	2.95	3.32	2.99	2.38
Cash dividends declared	131	134	70	72	74
Cash dividends declared per common share	0.48	0.48	0.24	0.24	0.24
Book value per common share ⁽²⁾⁽³⁾	27.79	22.87	22.10	21.26	19.43
Market value per common share – year end	65.72	35.04	52.37	58.54	52.13
Supplemental Data					
Capital employed ⁽⁴⁾	9,829	8,705	7,918	8,231	6,898
Debt to capital ratio ⁽⁵⁾	23.4%	28.9%	22.7%	23.8%	14.4%
Net debt to net capital employed ⁽⁶⁾	(23.5)%	6.1%	6.6%	0.1%	(24.1)%
Average stockholders' equity ⁽⁷⁾	6,768	6,214	6,344	6,022	5,736
Return on stockholders' equity ⁽⁸⁾	18.7%	13.2%	15.6%	15.2%	13.1%

Footnotes to Five-Year Highlights:

- (1) Based on year-end balances and sales or cost of sales for the last 90 days of the year.
- (2) Certain computations may reflect rounding adjustments.
- (3) Represents stockholders' equity divided by year-end common shares outstanding.
- (4) Consists of total debt and stockholders' equity.
- (5) Ratio is computed as total debt divided by capital employed.
- (6) Ratio is computed as total debt, net of cash and cash equivalents ("net debt"), divided by net debt and stockholders' equity ("net capital employed").
- (7) Represents a five-quarter average of stockholders' equity.
- (8) Ratio is computed as net income divided by a five-quarter average of stockholders' equity.

McKESSON CORPORATION

FINANCIAL REVIEW

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

Management's discussion and analysis of financial condition and results of operations, referred to as the Financial Review, is intended to assist the reader in the understanding and assessment of significant changes and trends related to the results of operations and financial position of the Company together with its subsidiaries. This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying financial notes in Item 8 of Part II of this Annual Report on Form 10-K. The Company's fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references in this document to a particular year shall mean the Company's fiscal year.

Certain statements in this report constitute forward-looking statements. See Item 1 – Business – Forward-Looking Statements in Part I of this Annual Report on Form 10-K for additional factors relating to these statements; also see Item 1A – Risk Factors in Part I of this Annual Report on Form 10-K for a list of certain risk factors applicable to our business, financial condition and results of operations.

We conduct our business through two operating segments: Distribution Solutions and Technology Solutions. See Financial Note 21, "Segments of Business," to the accompanying consolidated financial statements for a description of these segments.

RESULTS OF OPERATIONS

Overview:

<i>(In millions, except per share data)</i>	Years Ended March 31,		
	2010	2009	2008
Revenues	\$ 108,702	\$ 106,632	\$ 101,703
Litigation Charge (Credit), Net	(20)	493	(5)
Income from Continuing Operations Before Income Taxes	\$ 1,864	\$ 1,064	\$ 1,457
Income Tax Expense	(601)	(241)	(468)
Income from Continuing Operations	1,263	823	989
Discontinued Operations, Net	—	—	1
Net Income	\$ 1,263	\$ 823	\$ 990
Diluted Earnings Per Common Share			
Continuing Operations	\$ 4.62	\$ 2.95	\$ 3.32
Discontinued Operations	—	—	—
Total	\$ 4.62	\$ 2.95	\$ 3.32
Weighted Average Diluted Common Shares	273	279	298

Revenues increased 2% to \$108.7 billion in 2010 and 5% to \$106.6 billion in 2009. The increase in revenues primarily reflects market growth in our Distribution Solutions segment, which accounted for approximately 97% of our consolidated revenues. To a lesser extent, revenues for 2010 were also affected by an increase in demand related to the flu season. These increases were partially offset by the loss of several customers in late 2009. Revenues for 2009 were increased by our acquisitions of Oncology Therapeutics Network ("OTN") in October 2007 and McQueary Brothers Drug Company ("McQueary Brothers") in May 2008.

Income from continuing operations before income taxes increased 75% to \$1.9 billion in 2010 and decreased 27% to \$1.1 billion in 2009. The increase in 2010 was due to improved gross profit, lower operating expenses compared to 2009, which included the \$493 million Average Wholesale Price ("AWP") litigation charge discussed below, and increases in other income, partially offset by higher interest expense. The decrease in income from continuing operations before income taxes in 2009 was due to higher operating expenses, primarily caused by the AWP litigation charge, and due to lower other income, partially offset by improved gross profit.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Gross profit increased 6% to \$5.7 billion and 7% to \$5.4 billion in 2010 and 2009. As a percentage of revenues, gross profit increased 18 basis points (“bp”) to 5.22% and 11 bp to 5.04% in 2010 and 2009. Gross profit margin increased in 2010 primarily reflecting an improved mix of higher margin revenues in both our Distribution Solutions and Technology Solutions segments. The increase in our 2009 gross profit margin was primarily due to an improvement in our Distribution Solutions segment margin, partially offset by a decline in our Technology Solutions segment margin.

Operating expenses were \$3.7 billion, \$4.2 billion and \$3.5 billion in 2010, 2009 and 2008. Operating expenses for 2010 decreased compared to 2009, which included the AWP litigation charge as further discussed under the caption “Operating Expenses” in this Financial Review. Excluding the AWP litigation charge, operating expenses for 2010 approximated the same period a year ago primarily due to lower Profit Sharing Investment Plan (“PSIP”) expense as more fully described under the caption “Operating Expenses” in this Financial Review, cost containment efforts, the sale of two businesses during the first and third quarters in 2009 and the reversal of a previously established litigation accrual. These decreases were partially offset by an increase in expenses associated with employee compensation and benefit costs, our 2009 business acquisitions and other business initiatives. Operating expenses for 2009 increased primarily due to additional expenses incurred to support our sales growth, expenses associated with our business acquisitions and higher employee compensation. As noted above, operating expenses for 2009 included a pre-tax charge of \$493 million for the AWP litigation charge.

In 2010, other income, net includes a \$17 million pre-tax gain (\$14 million after-tax) from the sale of our 50% equity interest in McKesson Logistics Solutions L.L.C. (“MLS”). In 2009, other income, net includes a pre-tax impairment charge of \$63 million (\$60 million after-tax) on two equity-held investments and a pre-tax gain of \$24 million (\$14 million after-tax) from the sale of an equity-held investment. Over the last two years, other income, net was negatively affected by a decrease in interest income due to lower interest rates and in 2009 was affected by a lower average cash and cash equivalents balance.

Interest expense increased 30% to \$187 million in 2010 and 1% to \$144 million in 2009. Interest expense increased in 2010 compared to the prior year primarily due to our issuance of \$700 million of long-term notes in February 2009. Interest expense for 2009 reflects the repayment of \$150 million of long-term debt during the fourth quarter of 2008 and the issuance of \$700 million of long-term debt during the fourth quarter of 2009.

Our reported income tax rates were 32.2%, 22.7% and 32.1% in 2010, 2009 and 2008. In 2009, current income tax expense included \$111 million of net income tax benefits for discrete items of which, \$87 million represents a non-cash benefit. These benefits primarily relate to the recognition of previously unrecognized tax benefits and related accrued interest. The recognition of these discrete items is primarily due to the lapsing of the statutes of limitations.

Net income was \$1,263 million, \$823 million and \$990 million in 2010, 2009 and 2008 and diluted earnings per common share were \$4.62, \$2.95 and \$3.32, which were favorably affected by decreases in our weighted average shares outstanding due to the cumulative effect of share repurchases from 2008 to 2010.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Revenues:

<i>(In millions)</i>	Years Ended March 31,		
	2010	2009	2008
Distribution Solutions			
Direct distribution & services	\$ 72,210	\$ 66,876	\$ 60,436
Sales to customers' warehouses	21,435	25,809	27,668
Total U.S. pharmaceutical distribution & services	93,645	92,685	88,104
Canada pharmaceutical distribution & services	9,072	8,225	8,106
Medical-Surgical distribution & services	2,861	2,658	2,509
Total Distribution Solutions	105,578	103,568	98,719
Technology Solutions			
Services	2,439	2,337	2,240
Software & software systems	571	572	591
Hardware	114	155	153
Total Technology Solutions	3,124	3,064	2,984
Total Revenues	\$ 108,702	\$ 106,632	\$ 101,703

Total revenues increased 2% to \$108.7 billion in 2010 and 5% to \$106.6 billion in 2009. The growth in revenues was primarily driven by our Distribution Solutions segment, which accounted for approximately 97% of revenues.

Direct distribution and services revenues increased in 2010 compared to 2009 primarily due to a shift of revenues from sales to customers' warehouses to direct store delivery and market growth, which includes price increases and increased volume from new and existing customers, offset in part by the greater sales of lower priced generic drugs. This increase was partially offset by the loss of several customers in late 2009. Direct distribution and services revenues increased in 2009 compared to 2008 primarily reflecting market growth, our acquisitions of OTN in October 2007 and McQueary Brothers in May 2008 and a shift of revenues from sales to customers' warehouses to direct store delivery.

Sales to customers' warehouses for 2010 decreased compared to prior year primarily due to a shift of revenues to direct store delivery, reduced revenues associated with a large customer and the loss of a large customer in mid-2009, partially offset by expanded business with existing customers. Sales to customers' warehouses decreased in 2009 compared to 2008 primarily reflecting a customer's loss of business, the loss of a large customer and reduced revenues associated with the consolidation of certain customers. Additionally, 2009 revenues were also impacted by a shift to direct store delivery. These decreases were partially offset by expanded business with existing customers.

Sales to retail customers' warehouses represent large volume sales of pharmaceuticals primarily to a limited number of large self-warehousing retail chain customers whereby we order bulk product from the manufacturer, receive and process the product through our central distribution facility and subsequently deliver the bulk product (generally in the same form as received from the manufacturer) directly to our customers' warehouses. This distribution method is typically not marketed or sold by the Company as a stand-alone service; rather, it is offered as an additional distribution method for our large retail chain customers that have an internal self-warehousing distribution network. Sales to customers' warehouses provide a benefit to these customers because they can utilize the Company as one source for both their direct-to-store business and their warehouse business. We generally have significantly lower gross profit margins on sales to customers' warehouses as we pass much of the efficiency of this low cost-to-serve model on to the customer. These sales do, however, contribute to our gross profit dollars.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

The customer mix of our U.S. pharmaceutical distribution revenues was as follows:

	2010	2009	2008
Direct Sales			
Independents	12%	13%	13%
Institutions	32	32	30
Retail Chains	32	26	24
Subtotal	76	71	67
Sales to retail customers' warehouses	24	29	33
Total	100%	100%	100%

In 2010, the percentage of total direct and warehouse revenue attributed to the Company's retail chain customers compared to our other customer groups increased slightly from the same period a year ago, while it declined in 2009. In 2009, this decline resulted in a positive impact on the Company's gross profit margin. As previously described, a limited number of our large retail chain customers purchase products through both the Company's direct and warehouse distribution methods, the latter of which generally has a significantly lower gross profit margin due to the low cost-to-serve model. When evaluating and pricing customer contracts, we do so based on our assessment of total customer profitability. As a result, we do not evaluate the Company's performance or allocate resources based on sales to customers' warehouses or gross profit associated with such sales.

Canadian pharmaceutical distribution and services revenues for 2010 increased on a constant currency basis by 7% from prior year primarily due to market growth, which includes price increases and increased volume from new and existing customers and a favorable foreign exchange rate of 3%. Canadian pharmaceutical distribution and services revenues for 2009 increased slightly primarily reflecting market growth, which was almost fully offset by 9% unfavorable foreign exchange rates and the loss of a customer.

Medical-Surgical distribution and services revenues increased in 2010 compared to 2009 reflecting an increase in demand related to the flu season, acquisitions and increased volume from new and existing customers. Medical-Surgical distribution and services revenues increased for 2009 from prior year primarily reflecting market growth and acquisitions. In addition, revenues in 2008 were impacted by the discontinuance of the distribution of a product line. Revenues associated with this product line are now recorded by our U.S. pharmaceutical distribution and services business.

Technology Solutions revenues increased in 2010 compared to prior year due to higher services revenues primarily caused by increases in outsourcing revenues for claims processing and other services and software maintenance reflecting the segment's expanded customer base. These increases were partially offset by a shift to products that have higher revenue deferral rates and lower hardware sales. Technology Solutions revenues increased in 2009 primarily due to increased services revenues primarily reflecting the segment's expanded customer base and outsourcing revenues for claims processing. These increases were partially offset by unfavorable foreign exchange rates and a decrease in software revenues, particularly in the hospital and physician office customer channels.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Gross Profit:

<i>(Dollars in millions)</i>	Years Ended March 31,		
	2010	2009	2008
Gross Profit			
Distribution Solutions	\$ 4,219	\$ 3,955	\$ 3,586
Technology Solutions	1,457	1,423	1,423
Total	<u>\$ 5,676</u>	<u>\$ 5,378</u>	<u>\$ 5,009</u>
Gross Profit Margin			
Distribution Solutions	4.00%	3.82%	3.63%
Technology Solutions	46.64	46.44	47.69
Total	<u>5.22</u>	<u>5.04</u>	<u>4.93</u>

Gross profit increased 6% to \$5.7 billion in 2010 and 7% to \$5.4 billion in 2009. As a percentage of revenues, gross profit increased by 18 bp in 2010 and 11 bp in 2009. Gross profit margin increased in 2010 primarily due to an improved mix of higher margin revenues in both of our operating segments. Our Distribution Solutions segment margin increased primarily due to flu-related demand. Our Technology Solutions segment margin improved reflecting a change in revenue mix. In 2009, the increase in our Distribution Solutions gross profit margin was partially offset by a decline in our Technology Solutions segment reflecting a change in revenue mix and the recognition of \$21 million of disease management deferred revenues in 2008 for which associated expenses were previously recognized as incurred.

In 2010, our Distribution Solutions segment's gross profit margin increased compared to 2009 primarily due to the impact of the H1N1 flu virus, which helped drive an improved mix of higher margin revenues stemming from increased flu-related demand across our distribution businesses. Gross profit margin was also favorably affected by a higher buy side margin, which primarily reflects compensation from branded pharmaceutical manufacturers, and increased sales of higher margin generic drugs. These benefits were partially offset by a decline in sell margin. Our last-in, first-out ("LIFO") net inventory expense was \$8 million for 2010 and 2009.

In 2009, our Distribution Solutions segment's gross profit margin increased compared to 2008. Gross profit margin was impacted by the benefit of increased sales of generic drugs with higher margins; higher buy side margins and an increase associated with a lower proportion of revenues within the segment attributed to sales to customers' warehouses, which generally have lower gross profit margins relative to other revenues within the segment. These increases were partially offset by a modest decline in sell margin during the latter part of the year and LIFO net inventory credits (\$8 million LIFO net expense in 2009 compared to a \$14 million LIFO net credit in 2008).

Our Distribution Solutions segment uses the LIFO method of accounting for the majority of its inventories, which results in cost of sales that more closely reflects replacement cost than under other accounting methods. The practice in the Distribution Solutions' distribution businesses is to pass on to customers published price changes from suppliers. Manufacturers generally provide us with price protection, which limits price-related inventory losses. Price declines on many generic pharmaceutical products in this segment over the last few years have moderated the effects of inflation in other product categories, which resulted in minimal overall price changes in those years. Additional information regarding our LIFO accounting is included under the caption "Critical Accounting Policies and Estimates," included in this Financial Review.

For each of the last three years, the Company's sales to customers' warehouses represented 5% or less of the segment's total gross profit dollars. In 2010, the percentage of total direct and warehouse revenue attributed to our retail chain customers compared to our other customer groups increased slightly from the same period a year ago, while it declined in 2009. In 2009, this decline resulted in a positive impact on the Company's gross profit margin.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

In 2010, our Technology Solutions segment's gross profit margin was favorably affected by a change in revenue mix, partially offset by a higher software revenue deferral rate.

In 2009, our Technology Solutions segment's gross profit margin decreased compared to the prior year primarily reflecting a change in revenue mix and the recognition in 2008 of \$21 million of disease management deferred revenues for which associated expenses were previously recognized as incurred.

Operating Expenses:

(Dollars in millions)	Years Ended March 31,		
	2010	2009	2008
Operating Expenses			
Distribution Solutions ⁽¹⁾	\$ 2,260	\$ 2,777	\$ 2,138
Technology Solutions	1,077	1,096	1,115
Corporate	351	309	283
Subtotal	3,688	4,182	3,536
Litigation (credit), net	(20)	-	(5)
Total	\$ 3,668	\$ 4,182	\$ 3,531
Operating Expenses as a Percentage of Revenues			
Distribution Solutions	2.14%	2.68%	2.17%
Technology Solutions	34.48	35.77	37.37
Total	3.37	3.92	3.47

(1) Operating expenses for 2009 include the \$493 million AWP litigation charge.

Operating expenses decreased 12% to \$3.7 billion in 2010 and increased 18% to \$4.2 billion in 2009. Operating expenses for 2010 decreased compared to 2009, which included the AWP litigation charge as more fully described below. Excluding the AWP litigation charge, operating expenses for 2010 approximated the same period a year ago primarily due to lower PSIP expense as more fully described below, cost containment efforts, the sale of two businesses during the first and third quarters in 2009 and the reversal of a previously established litigation accrual. These decreases were partially offset by an increase in expenses associated with employee compensation and benefit costs, our 2009 business acquisitions and other business initiatives.

Excluding the AWP litigation charge, operating expenses for 2009 increased primarily due to additional expenses incurred to support our sales growth, expenses associated with our business acquisitions and higher employee compensation.

The McKesson Corporation PSIP is a member of the settlement class in the Consolidated Securities Litigation Action. On April 27, 2009, the court issued an order approving the distribution of the settlement funds. On October 9, 2009, the PSIP received approximately \$119 million of the Consolidated Securities Litigation Action proceeds. Approximately \$42 million of the proceeds were attributable to the allocated shares of McKesson common stock owned by the PSIP participants during the Consolidated Securities Litigation Action class-holding period and were allocated to the respective participants on that basis in the third quarter of 2010. Approximately \$77 million of the proceeds were attributable to the unallocated shares (the "Unallocated Proceeds") of McKesson common stock owned by the PSIP in an employee stock ownership plan ("ESOP") suspense account. In accordance with the plan terms, the PSIP distributed all of the Unallocated Proceeds to current PSIP participants after the close of the plan year in April 2010. The receipt of the Unallocated Proceeds by the PSIP was reimbursement for the loss in value of the Company's common stock held by the PSIP in its ESOP suspense account during the Consolidated Securities Litigation Action class-holding period and was not a contribution made by the Company to the PSIP or ESOP. Accordingly, there were no accounting consequences to the Company's financial statements relating to the receipt of the Unallocated Proceeds by the PSIP.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

The Company's PSIP expense for the full year is negligible, as the Company did not make additional contributions to the PSIP or ESOP. As a result, our compensation expense in 2010 was lower than 2009. During 2009 and 2008, PSIP expense was \$53 million and \$13 million. The expense for 2008 was lower than 2009 due to the utilization of lower cost basis shares from the ESOP to fund our matching contributions. The expense for 2011 is expected to be approximately \$58 million.

PSIP expense by segment for the last three years was as follows:

(In millions)	Years Ended March 31,		
	2010	2009	2008
Distribution Solutions	\$ —	\$ 23	\$ 5
Technology Solutions	1	28	7
Corporate	—	2	1
PSIP expense	<u>\$ 1</u>	<u>\$ 53</u>	<u>\$ 13</u>
Cost of sales ⁽¹⁾	\$ —	\$ 12	\$ 3
Operating expenses	1	41	10
PSIP expense	<u>\$ 1</u>	<u>\$ 53</u>	<u>\$ 13</u>

(1) Amounts recorded to cost of sales pertain solely to our Technology Solutions segment.

Over the last three years, we recorded the following reduction in workforce and restructuring charges:

(In millions)	Years Ended March 31,		
	2010	2009	2008
Other workforce reduction charges, net ⁽¹⁾			
Distribution Solutions	\$ 9	\$ 7	\$ —
Technology Solutions	11	25	8
Total	<u>20</u>	<u>32</u>	<u>8</u>
Restructuring charges (credits), net			
Distribution Solutions ⁽²⁾	1	4	8
Technology Solutions ⁽³⁾	—	(2)	9
Corporate	1	(1)	2
Total	<u>2</u>	<u>1</u>	<u>19</u>
Total reduction in workforce and restructuring charges	<u>\$ 22</u>	<u>\$ 33</u>	<u>\$ 27</u>
Cost of sales ⁽⁴⁾	\$ 5	\$ 5	\$ 7
Operating expenses	17	28	20
Total reduction in workforce and restructuring charges	<u>\$ 22</u>	<u>\$ 33</u>	<u>\$ 27</u>

(1) Although other workforce reduction actions do not constitute a restructuring plan as defined under U.S. GAAP, they do represent independent actions taken from time-to-time, as appropriate. Other workforce reduction charges also reflected related facility exit costs of \$4 million and \$3 million in 2010 and 2009 for our Technology Solutions segment.

(2) In 2008, we incurred \$4 million of severance costs associated with the closure of two facilities and \$1 million and \$3 million of severance and asset impairments associated with the integration of OTN.

(3) In 2008, we incurred \$5 million of severance and exit-related costs and a \$4 million asset impairment charge for the write-off of capitalized software costs associated with the termination of a software project.

(4) Amounts recorded to cost of sales generally pertain to our Technology Solutions segment.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

On a segment basis, Distribution Solutions' operating expenses decreased in 2010 and increased in 2009 primarily due to the \$493 million AWP litigation charge in 2009. Excluding the AWP litigation charge, operating expenses and operating expenses as a percentage of revenues decreased in 2010 primarily due to the sale of two businesses during the first and third quarters of 2009, lower PSIP expense in 2010 and our continued focus on cost containment, partially offset by an increase in expenses associated with our 2009 business acquisitions.

Excluding the AWP litigation charge, operating expenses in 2009 increased primarily due to business acquisitions and additional costs incurred to support our sales volume growth. Operating expenses as a percentage of revenues increased in 2009 primarily due to the AWP litigation charge as well as additional costs incurred to support our sales volume growth.

As discussed in Financial Note 18, "Other Commitments and Contingent Liabilities," in 2009 we reached an agreement to settle all private party claims relating to First DataBank, Inc.'s published drug reimbursement benchmarks for \$350 million. We also recorded an accrual for pending and expected AWP-related claims by public payors, which is currently estimated to be \$143 million. The combination of the AWP settlement for all private party claims and the decision by us to establish an estimated accrual for the pending and expected AWP-related claims by public payors resulted in a pre-tax, non-cash charge of \$493 million in the third quarter of 2009.

Technology Solutions segment's operating expenses decreased over the past two years. Operating expenses and operating expenses as a percentage of revenues for 2010 benefited from lower PSIP expense, cost containment efforts and reduction in workforce plans implemented in 2009, partially offset by our continued investment in research and development activities. Operating expenses for 2009 decreased primarily due to cost containment efforts and a decrease in bad debt expense, partially offset by an increase in net research and development expenses and additional costs for business acquisitions. Operating expenses as a percentage of revenues for this segment decreased for 2009 primarily reflecting the segment's cost containment efforts and a more favorable business mix.

Corporate expenses have increased over the last two years. Corporate expenses for 2010 increased primarily due to higher compensation and benefits costs, other business initiatives and legal settlement charges, partially offset by the reversal of a previously established litigation accrual. Corporate expenses increased in 2009 compared to 2008 primarily reflecting an increase in accounts receivable sales facility fees, compensation expense and additional costs incurred to support various initiatives.

Other Income, net:

<i>(In millions)</i>	Years Ended March 31,		
	2010	2009	2008
By Segment			
Distribution Solutions	\$ 29	\$ (20)	\$ 35
Technology Solutions	5	7	11
Corporate	9	25	75
Total	\$ 43	\$ 12	\$ 121

In 2010, other income, net includes a \$17 million pre-tax gain (\$14 million after-tax) from the sale of our 50% equity interest in MLS. The gain on sale of our investment in MLS was recorded within our Distribution Solutions segment. The increase in other income, net was partially offset by a decrease in interest income due to lower interest rates in 2010. Interest income, which is primarily recorded in Corporate, was \$16 million, \$31 million and \$89 million in 2010, 2009 and 2008.

In 2009, other income, net included a pre-tax impairment charge of \$63 million (\$60 million after-tax) on two equity-held investments (as further described below) and a pre-tax gain of \$24 million (\$14 million after-tax) from the sale of our 42% equity interest in Verispan, LLC ("Verispan"). The impairment charge and the gain on sale of our investment in Verispan were both recorded within our Distribution Solutions segment. Excluding these items, other income, net decreased primarily due to a decrease in interest income from lower average cash and cash equivalents balances and interest rates.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

We evaluate our investments for impairment when events or changes in circumstances indicate that the carrying values of such investment may have experienced an other-than-temporary decline in value. During the fourth quarter of 2009, we determined that the fair value of our interest in Parata was lower than its carrying value and that such impairment was other-than-temporary. Fair value was determined using a discounted cash flow analysis based on estimated future results and market capitalization rates. We determined the impairment was other-than-temporary based on our assessment of all relevant factors including deterioration in the investee's financial condition and weak market conditions. As a result, we recorded a pre-tax impairment of \$58 million (\$55 million after-tax) on this investment which is recorded within other income, net in the consolidated statements of operations. Our investment in Parata is accounted for under the equity method of accounting within our Distribution Solutions segment.

During the fourth quarter of 2009, we also recorded a pre-tax impairment of \$5 million (\$5 million after-tax) on another equity-held investment within our Distribution Solutions segment.

Segment Operating Profit and Corporate Expenses:

<i>(Dollars in millions)</i>	Years Ended March 31,		
	2010	2009	2008
Segment Operating Profit ⁽¹⁾			
Distribution Solutions ^{(2) (3)}	\$ 1,988	\$ 1,158	\$ 1,483
Technology Solutions	385	334	319
Subtotal	2,373	1,492	1,802
Corporate Expenses, Net	(342)	(284)	(208)
Litigation Credit, Net	20	-	5
Interest Expense	(187)	(144)	(142)
Income from Continuing Operations Before Income Taxes	\$ 1,864	\$ 1,064	\$ 1,457
Segment Operating Profit Margin			
Distribution Solutions	1.88%	1.12%	1.50%
Technology Solutions	12.32	10.90	10.69

- (1) Segment operating profit includes gross profit, net of operating expenses, plus other income (expense), net for our two operating segments.
- (2) Operating expenses for 2009 for our Distribution Solutions segment included the \$493 million pre-tax AWP litigation charge.
- (3) Other income, net for 2010 for our Distribution Solutions segment included the MLS pre-tax gain of \$17 million and for 2009 included \$63 million of pre-tax charges to write-down two equity-held investments and a \$24 million pre-tax gain on the sale of our equity investment in Verispan.

In 2010, operating profit margin for our Distribution Solutions segment increased primarily due to a higher gross profit margin, lower operating expenses as a percentage of revenues and the gain on sale of the segment's 50% equity investment in MLS. Operating expenses improved due to the sale of two businesses during the first and third quarters of 2009 and lower PSIP expense, partially offset by an increase in expenses associated with our business acquisitions. Results for 2009 included the \$493 million AWP litigation charge, \$63 million of pre-tax charges to write-down two equity-held investments and a \$24 million pre-tax gain on the sale of the segment's 42% equity investment in Verispan.

In 2009, operating profit margin in our Distribution Solutions segment decreased compared to 2008 primarily due to an increase in operating expenses as a percentage of revenues as a result of the AWP litigation charge and a decrease in other income, partially offset by a higher gross profit margin.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

In 2010, operating profit margin in our Technology Solutions segment increased compared to 2009 primarily due to lower operating expenses as a percentage of revenues and an improvement in gross profit margin.

In 2009, operating profit margin in our Technology Solutions segment increased compared to 2008 primarily due to a decrease in operating expenses as a percentage of revenues, partially offset by a decrease in gross profit margin. Operating profit margin for this segment for the past two years has benefited from cost containment efforts and a more favorable revenue mix.

Corporate expenses, net of other income increased in 2010 compared to 2009 primarily due to an increase in operating expenses and a decrease in interest income. Corporate expenses, net of other income, increased in 2009 compared to 2008 primarily due to a decrease in interest income and an increase in operating expenses.

Litigation Credit, Net: In 2010 and 2008 we recorded net credits of \$20 million and \$5 million relating to settlements for the securities litigation.

Interest Expense: Interest expense increased in 2010 compared to the prior year primarily due to our issuance of \$700 million of long-term notes in February 2009. Interest expense increased slightly in 2009 compared to the prior year, which reflects the repayment of \$150 million of long-term debt during the fourth quarter of 2008 and the issuance of \$700 million of long-term debt during the fourth quarter of 2009. Refer to our discussion under the caption “Credit Resources” within this Financial Review for additional information regarding our financing activities.

Income Taxes: Our reported tax rates were 32.2%, 22.7% and 32.1% in 2010, 2009 and 2008. In addition to the items noted below, fluctuations in our reported tax rate are primarily due to changes within our business mix, including varying proportions of income attributable to foreign countries that have lower income tax rates.

In 2009, we recorded a \$182 million income tax benefit for the AWP litigation accrual. The tax benefit could change in the future depending on the resolution of the pending and expected claims.

In 2009, current income tax expense included \$111 million of net income tax benefits for discrete items of which \$87 million represents a non-cash benefit. These benefits primarily relate to the recognition of previously unrecognized tax benefits and related accrued interest. The recognition of these discrete items was primarily due to the lapsing of the statutes of limitations.

In 2008, the U.S. Internal Revenue Service (“IRS”) began its examination of our fiscal years 2003 through 2006. In 2009 and 2010, we received assessments from the Canada Revenue Agency (“CRA”) for a total of \$62 million related to transfer pricing for 2003, 2004 and 2005. We paid the CRA assessments to stop the accrual of interest. We have appealed the assessment for 2003 and have filed a notice of objection for 2004 and 2005. We believe we have adequately provided for any potential adverse results. In nearly all jurisdictions, the tax years prior to 2003 are no longer subject to examination. We believe that we have made adequate provision for all remaining income tax uncertainties.

In 2008, the IRS completed an examination of our consolidated income tax returns for 2000 to 2002 resulting in a signed Revenue Agent Report (“RAR”), which was subsequently approved by the Joint Committee on Taxation. The IRS and the Company agreed to certain adjustments, primarily related to transfer pricing and income tax credits. As a result of the approved RAR, we recognized approximately \$25 million of net federal and state income tax benefits in 2008.

Discontinued Operations: No charges for discontinued operations were incurred during 2010 and 2009. In 2008, discontinued operations included \$1 million from the Company’s Acute Care business, which was sold in 2007.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Net Income: Net income was \$1,263 million, \$823 million and \$990 million in 2010, 2009 and 2008 and diluted earnings per common share were \$4.62, \$2.95 and \$3.32. The net income and diluted earnings per common share for 2009 included a pre-tax charge of \$493 million (\$311 million after-tax) for the AWP litigation as discussed in further detail under the caption “Operating Expenses” in this Financial Review.

Weighted Average Diluted Common Shares Outstanding: Diluted earnings per common share was calculated based on a weighted average number of shares outstanding of 273 million, 279 million and 298 million for 2010, 2009 and 2008. The decrease in the number of weighted average diluted common shares outstanding over the past two years primarily reflects a decrease in the number of shares outstanding as a result of stock repurchased, partially offset by exercise of share-based awards.

International Operations

International operations accounted for 8.6%, 7.9% and 8.2% of 2010, 2009 and 2008 consolidated revenues. International operations are subject to certain risks, including currency fluctuations. We monitor our operations and adopt strategies responsive to changes in the economic and political environment in each of the countries in which we operate. Additional information regarding our international operations is also included in Financial Note 21, “Segments of Business,” to the accompanying consolidated financial statements.

Business Combinations and Investments

In 2009, we made the following acquisition:

On May 21, 2008, we acquired McQueary Brothers of Springfield, Missouri for approximately \$190 million. McQueary Brothers is a regional distributor of pharmaceutical, health and beauty products to independent and regional chain pharmacies in the Midwestern U.S. This acquisition expanded our existing U.S. pharmaceutical distribution business. The acquisition was funded with cash on hand. During the first quarter of 2010, the acquisition accounting was completed. Approximately \$126 million of the purchase price allocation has been assigned to goodwill, which primarily reflects the expected future benefits from synergies to be realized upon integrating the business. Included in the purchase price allocation are acquired identifiable intangibles of \$61 million representing a customer relationship with a useful life of 7 years, a trade name of \$2 million with a useful life of less than one year and a not-to-compete agreement of \$4 million with a useful life of 4 years. Financial results for McQueary Brothers have been included within our Distribution Solutions segment since the date of acquisition.

In 2008, we made the following acquisition:

On October 29, 2007, we acquired all of the outstanding shares of OTN of San Francisco, California for approximately \$519 million, including the assumption of debt and net of \$31 million of cash and cash equivalents acquired from OTN. During the third quarter of 2009, the acquisition accounting was completed. OTN is a U.S. distributor of specialty pharmaceuticals. The acquisition of OTN expanded our existing specialty pharmaceutical distribution business. The acquisition was funded with cash on hand. Financial results for OTN are included within our Distribution Solutions segment since the date of acquisition. Approximately \$240 million of the purchase price allocation has been assigned to goodwill, which primarily reflects the expected future benefits from synergies upon integrating the business. Included in the purchase price allocation are acquired identifiable intangibles of \$115 million representing customer relationships with a weighted-average life of 9 years, developed technology of \$3 million with a weighted-average life of 4 years and trademarks and trade names of \$10 million with a weighted-average life of 5 years.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

During the last three years, we also completed a number of other smaller acquisitions and investments within both of our operating segments. Financial results for our business acquisitions have been included in our consolidated financial statements since their respective acquisition dates. Purchase prices for our business acquisitions have been allocated based on estimated fair values at the date of acquisition and for certain recent acquisitions may be subject to change as we continue to evaluate and implement various restructuring initiatives. Goodwill recognized for our business acquisitions is generally not expected to be deductible for tax purposes. Pro forma results of operations for our business acquisitions have not been presented because the effects were not material to the consolidated financial statements on either an individual or an aggregate basis. Refer to Financial Note 2, "Business Combinations and Investments," to the consolidated financial statements appearing in this Annual Report on Form 10-K for further discussions regarding our acquisitions and investing activities.

2011 Outlook

Information regarding the Company's 2011 outlook is contained in our Form 8-K dated May 3, 2010. This Form 8-K should be read in conjunction with the sections Item 1 – Business – Forward-looking Statements and Item 1A – Risk Factors in Part 1 of this Annual Report on Form 10-K.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We consider an accounting estimate to be critical if the estimate requires us to make assumptions about matters that were uncertain at the time the accounting estimate was made and if different estimates that we reasonably could have used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on our financial condition or results from operations. Below are the estimates that we believe are critical to the understanding of our operating results and financial condition. Other accounting policies are described in Financial Note 1, "Significant Accounting Policies," to the consolidated financial statements appearing in this Annual Report on Form 10-K. Because of the uncertainty inherent in such estimates, actual results may differ from these estimates.

Allowance for Doubtful Accounts: We provide short-term credit and other customer financing arrangements to customers who purchase our products and services. Other customer financing primarily relates to guarantees provided to our customers, or their creditors, regarding the repurchase of inventories. We also provide financing to certain customers related to the purchase of pharmacies, which serve as collateral for the loans. We estimate the receivables for which we do not expect full collection based on historical collection rates and specific knowledge regarding the current creditworthiness of our customers and record an allowance in our consolidated financial statements for these amounts.

In determining the appropriate allowance for doubtful accounts, which includes portfolio and specific reserves, the Company reviews accounts receivable aging, industry trends, customer financial strength, credit standing, historical write-off trends and payment history to assess the probability of collection. If the frequency and severity of customer defaults due to our customers' financial condition or general economic conditions change, our allowance for uncollectible accounts may require adjustment. As a result, we continuously monitor outstanding receivables and other customer financing and adjust allowances for accounts where collection may be in doubt. At March 31, 2010, revenues and accounts receivable from our ten largest customers accounted for approximately 53% of consolidated revenues and 45% of accounts receivable. At March 31, 2010, revenues and accounts receivable from our two largest customers, CVS and Rite Aid, represented approximately 15% and 12% of total consolidated revenues and 14% and 10% of accounts receivable. As a result, our sales and credit concentration is significant. A default in payments, a material reduction in purchases from these, or any other large customer or the loss of a large customer could have a material adverse impact on our financial condition, results of operations and liquidity.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Reserve methodologies are assessed annually based on historical losses and economic, business and market trends. In addition, reserves are reviewed quarterly and updated if unusual circumstances or trends are present. We believe the reserves maintained and expenses recorded in 2010 are appropriate and consistent with historical methodologies employed. At this time, we are not aware of any internal process or customer issues that might lead to a significant increase in the foreseeable future in our allowance for doubtful accounts as a percentage of net revenue.

At March 31, 2010, trade and notes receivables were \$7,375 million prior to allowances of \$131 million. In 2010, 2009 and 2008 our provision for bad debts was \$17 million, \$29 million and \$41 million. At March 31, 2010 and 2009, the allowance as a percentage of trade and notes receivables was 1.8% and 2.2%. An increase or decrease of 0.1% in the 2010 allowance as a percentage of trade and notes receivables would result in an increase or decrease in the provision on receivables of approximately \$7 million. Additional information concerning our allowance for doubtful accounts may be found in Schedule II included in this Annual Report on Form 10-K.

Inventories: We report inventories at the lower of cost or market (“LCM”). Inventories for our Distribution Solutions segment consist of merchandise held for resale. For our Distribution Solutions segment, the majority of the cost of domestic inventories is determined using the LIFO method and the cost of Canadian inventories is determined using the first-in, first-out (“FIFO”) method. Technology Solutions segment inventories consist of computer hardware with cost determined by the standard cost method. Rebates, fees, cash discounts, allowances, chargebacks and other incentives received from vendors are generally accounted for as a reduction in the cost of inventory and are recognized when the inventory is sold. Total inventories were \$9.4 billion and \$8.5 billion at March 31, 2010 and 2009.

The LIFO method was used to value approximately 87% and 88% of our inventories at March 31, 2010 and 2009. At March 31, 2010 and 2009, our LIFO reserves, net of LCM adjustments, were \$93 million and \$85 million. LIFO reserves include both pharmaceutical and non-pharmaceutical products. In 2010 and 2009, we recognized net LIFO expense of \$8 million and in 2008, net LIFO credits of \$14 million within our consolidated statements of operations. In 2010, our \$8 million net LIFO expense related to our non-pharmaceutical products. A LIFO expense is recognized when the net effect of price increases on branded pharmaceuticals and non-pharmaceutical products held in inventory exceeds the impact of price declines and shifts towards generic pharmaceuticals, including the effect of branded pharmaceutical products that have lost market exclusivity. A LIFO credit is recognized when the impact of price declines and shifts towards generic pharmaceuticals exceeds the impact of price increases on branded pharmaceuticals and non-pharmaceutical products held in inventory.

We believe that the FIFO inventory costing method provides a reasonable estimation of the current cost of replacing inventory (i.e., “market”). As such, our LIFO inventory is valued at the lower of LIFO or inventory as valued under FIFO. Primarily due to continued deflation in generic pharmaceutical inventories, pharmaceutical inventories at LIFO were \$112 million and \$107 million higher than FIFO as of March 31, 2010 and 2009. As a result, in 2010 and 2009, we recorded LCM charges of \$5 million and \$64 million within our consolidated statements of operations to adjust our LIFO inventories to market. As deflation in generic pharmaceuticals continues, we anticipate that LIFO credits from the valuation of our pharmaceutical products will be fully offset by LCM reserves.

In determining whether inventory valuation issues exist, we consider various factors including estimated quantities of slow-moving inventory by reviewing on-hand quantities, outstanding purchase obligations and forecasted sales. Shifts in market trends and conditions, changes in customer preferences due to the introduction of generic drugs or new pharmaceutical products or the loss of one or more significant customers are factors that could affect the value of our inventories. We provide reserves for excess and obsolete inventory, if indicated, as a result of these reviews. These factors could make our estimates of inventory valuation differ from actual results.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Business Combinations: We account for acquired businesses using the acquisition method of accounting, which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

Prior to April 1, 2009, amounts allocated to acquired in-process research and development (“IPR&D”) were expensed at the date of acquisition. Effective April 1, 2009, acquired IPR&D is measured at fair value using market participant assumptions and initially capitalized as an indefinite-lived intangible asset. Capitalized IPR&D is amortized over its estimated useful life once the asset is put in service. Capitalized IPR&D is reviewed for impairment whenever events or changes in circumstances indicate that we will not be able to recover the asset’s carrying amount. The judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact our results of operations. The valuations are based on information available near the acquisition date and are based on expectations and assumptions that have been deemed reasonable by management. Effective April 1, 2009, contingent consideration is measured at its acquisition-date fair value. Contingent consideration classified as a liability is remeasured at fair value at the end of each subsequent reporting period and changes to the fair value are included in the current period’s earnings. Contingent consideration classified as equity is not remeasured subsequently.

Several methods may be used to determine the fair value of assets acquired and liabilities assumed. For intangible assets, we typically use the income method. This method starts with a forecast of all of the expected future net cash flows for each asset or liability acquired. These cash flows are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. Some of the more significant estimates and assumptions inherent in the income method or other methods include the amount and timing of projected future cash flows, the discount rate selected to measure the risks inherent in the future cash flows and the assessment of the asset’s life cycle and the competitive trends impacting the asset, including consideration of any technical, legal, regulatory, or economic barriers to entry. Determining the useful life of an intangible asset also requires judgment as different types of intangible assets will have different useful lives and certain assets may even be considered to have indefinite useful lives. Refer to Financial Note 2, “Business Combinations and Investments,” to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information regarding our acquisitions.

Goodwill: As a result of acquiring businesses, we have \$3,568 million and \$3,528 million of goodwill at March 31, 2010 and 2009. We maintain goodwill assets on our books unless the assets are considered to be impaired. We perform an impairment test on goodwill balances annually in the fourth quarter or more frequently if indicators for potential impairment exist. Indicators that are considered include significant changes in performance relative to expected operating results, significant changes in the use of the assets, significant negative industry, or economic trends or a significant decline in the Company’s stock price and/or market capitalization for a sustained period of time.

Impairment testing is conducted at the reporting unit level, which is generally defined as a component – one level below our Distribution Solutions and Technology Solutions operating segments, for which discrete financial information is available and segment management regularly reviews the operating results of that unit. Components that have essentially similar operations, products, services and customers are aggregated as a single reporting unit. Management judgment is involved in determining which components may be combined and changes in these combinations could affect the outcome of the testing.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Impairment tests require that we first compare the carrying value of net assets to the estimated fair value of net assets for the reporting units. If the carrying value exceeds the fair value, a second step would be performed to calculate the amount of impairment, which would be recorded as a charge in our consolidated statements of operations. Fair values can be determined using the market, income or cost approach. To estimate the fair value of our reporting units, we use a combination of the market approach and the income approach. Under the market approach, we estimate fair value by comparing the business to similar businesses, or guideline companies whose securities are actively traded in public markets. Under the income approach, we use a discounted cash flow model in which cash flows anticipated over several periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate rate of return. In addition, we compare the aggregate fair value of our reporting units to our market capitalization as further corroboration of the fair value.

Some of the more significant estimates and assumptions inherent in the goodwill impairment estimation process using the market approach include the selection of appropriate guideline companies, the determination of market value multiples for both the guideline companies and the reporting unit, the determination of applicable premiums and discounts based on any differences in marketability between the business and the guideline companies and for the income approach, the required rate of return used in the discounted cash flow method, which reflects capital market conditions and the specific risks associated with the business. Other estimates inherent in both the market and income approaches include long-term growth rates, projected revenues and earnings and cash flow forecasts for the reporting units.

Estimates of fair value result from a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions at a point in time. The judgments made in determining an estimate of fair value may materially impact our results of operations. The valuations are based on information available as of the impairment review date and are based on expectations and assumptions that have been deemed reasonable by management. Any changes in key assumptions, including failure to meet business plans, a further deterioration in the market or other unanticipated events and circumstances, may affect the accuracy or validity of such estimates and could potentially result in an impairment charge.

In 2010 and 2009, we concluded that there were no impairments of goodwill as the fair value of each reporting unit exceeded its carrying value.

Supplier Incentives: Fees for service and other incentives received from suppliers, relating to the purchase or distribution of inventory, are generally reported as a reduction to cost of goods sold. We consider these fees and other incentives to represent product discounts and as a result, the amounts are recorded as a reduction of product cost and are recognized through cost of goods sold upon the sale of the related inventory.

Supplier Reserves: We establish reserves against amounts due from suppliers relating to various price and rebate incentives, including deductions or billings taken against payments otherwise due to them. These reserve estimates are established based on judgment after carefully considering the status of current outstanding claims, historical experience with the suppliers, the specific incentive programs and any other pertinent information available. We evaluate the amounts due from suppliers on a continual basis and adjust the reserve estimates when appropriate based on changes in factual circumstances. As of March 31, 2010 and 2009, supplier reserves were \$89 million and \$113 million. All of the supplier reserves at March 31, 2010 and 2009 pertain to our Distribution Solutions segment. A hypothetical 0.1% percentage increase or decrease in the supplier reserve as a percentage of trade payables would have resulted in an increase or decrease in the cost of sales of approximately \$13 million in 2010. The ultimate outcome of any amounts due from our suppliers may be different from our estimate.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Income Taxes: Our income tax expense and deferred tax assets and liabilities reflect management's best assessment of estimated current and future taxes to be paid. We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax provision and in evaluating income tax uncertainties. We review our tax positions at the end of each quarter and adjust the balances as new information becomes available.

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets, we consider all available positive and negative evidence including our past operating results, the existence of cumulative net operating losses in the most recent years and our forecast of future taxable income. In estimating future taxable income, we develop assumptions including the amount of future federal, state and foreign pre-tax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we use to manage the underlying businesses. We had deferred income tax assets (net of valuation allowances) of \$1,187 million and \$1,447 million at March 31, 2010 and 2009 and deferred tax liabilities of \$1,845 million and \$1,889 million. Deferred tax assets primarily consist of net loss and credit carryforwards and timing differences on our compensation and benefit related accruals. Deferred tax liabilities primarily consist of basis differences for inventory valuation (including inventory valued at LIFO) and other assets. We established valuation allowances of \$97 million against certain deferred tax assets, which primarily relate to federal, state and foreign loss carryforwards for which the ultimate realization of future benefits is uncertain. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. Should tax laws change, including those laws pertaining to LIFO, our cash flows could be materially impacted.

If our assumptions and estimates described above were to change, an increase/decrease of 1% in our effective tax rate as applied to income from continuing operations would have increased/decreased tax expense by approximately \$19 million, or \$0.07 per diluted share, for 2010.

Share-Based Compensation: Our compensation programs include share-based compensation. We account for all share-based compensation transactions using a fair-value based measurement method. The share-based compensation expense is recognized, for the portion of the awards that is ultimately expected to vest, on a straight-line basis over the requisite service period for those awards with graded vesting and service conditions. For awards with performance conditions and multiple vest dates, we recognize the expense on a graded vesting basis. For awards with performance conditions and a single vest date, we recognize the expense on a straight-line basis.

We estimate the grant-date fair value of employee stock options using the Black-Scholes options-pricing model. We believe that it is difficult to accurately measure the value of an employee stock option. Our estimates of employee stock option values rely on estimates of factors we input into the model. The key factors involve an estimate of future uncertain events. The key factors influencing the estimation process, among others, are the expected life of the option, the expected stock price volatility factor and the expected dividend yield. In determining the expected life of the option, we primarily use historical experience as our best estimate of future exercise patterns. We use a combination of historical and implied market volatility to determine the expected stock price volatility factor. We believe that this market-based input provides a better estimate of our future stock price movements and is consistent with employee stock option valuation considerations. Once the fair values of employee stock options are determined, current accounting practices do not permit them to be changed, even if the estimates used are different from actual experience.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

In addition, we develop an estimate of the number of share-based awards, which will ultimately vest primarily based on historical experience. Changes in the estimated forfeiture rate can have a material effect on share-based compensation expense. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment is made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment is made to decrease the estimated forfeiture rate, which will result in an increase to the expense recognized in the financial statements. We re-assess the estimated forfeiture rate established upon grant periodically throughout the requisite service period. Such estimates are revised if they differ materially from actual forfeitures. As required, the forfeiture estimates will be adjusted to reflect actual forfeitures when an award vests. The actual forfeitures in future reporting periods could be materially higher or lower than our current estimates.

Our assessments of estimated share-based compensation charges are affected by our stock price as well as assumptions regarding a number of complex and subjective variables and the related tax impact. These variables include the volatility of our stock price, employee stock option exercise behavior, timing, number and types of annual share-based awards and the attainment of performance goals. As a result, the future share-based compensation expense may differ from the Company's historical amounts.

Loss Contingencies: We are subject to various claims, other pending and potential legal actions for damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of our business. We record a provision for a liability when management believes that it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Management reviews these provisions at least quarterly and adjusts them to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Because litigation outcomes are inherently unpredictable, these decisions often involve a series of complex assessments by management about future events that can rely heavily on estimates and assumptions and it is possible that the actual cost of these matters could impact our earnings, either negatively or positively, in the period of their resolution.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

We expect our available cash generated from operations, together with our existing sources of liquidity from our accounts receivable sales facility and short-term borrowings under the revolving credit facility and commercial paper, will be sufficient to fund our long-term and short-term capital expenditures, working capital and other cash requirements. In addition, from time-to-time, we may access the long-term debt capital markets to discharge our other liabilities.

Net cash flow from operating activities was \$2,316 million in 2010, compared to \$1,351 million in 2009 and \$869 million in 2008. Operating activities for 2010 were primarily affected by improved management of drafts and accounts payable, partially offset by an increase in inventories due to our revenue growth and the AWP litigation private payor settlement payments of \$350 million. Cash flows from operations can also be significantly impacted by factors such as the timing of receipts from customers and payments to vendors.

Operating activities for 2009 include a non-cash charge of \$493 million and the related income tax benefit of \$182 million for the AWP litigation charge. Operating activities for 2009 reflect an increase in receivables primarily associated with our revenue growth as well as longer payment terms for certain customers and improvement in our net financial inventory (inventory, net of drafts and accounts payable).

Operating activities for 2008 were affected by a use of cash of \$962 million due to the release of restricted cash for our Consolidated Securities Litigation Action. In addition, operating activities in 2008 reflect changes in our working capital accounts due to revenue growth.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Net cash used in investing activities was \$309 million in 2010 compared to \$727 million in 2009 and \$5 million in 2008. Investing activities for 2010 include \$199 million and \$179 million in capital expenditures for property acquisitions and capitalized software and the release of \$55 million of restricted cash from escrow related to the AWP litigation settlement payments. Investing activities for 2009 included \$358 million of cash payments for business acquisitions, including the McQueary Brothers acquisition for approximately \$190 million. Investing activities for 2008 benefited from the \$962 million release of restricted cash for our Consolidated Securities Litigation Action. Investing activities included \$610 million in 2008 of cash paid for business acquisitions, including OTN.

Financing activities utilized cash of \$421 million in 2010, provided cash of \$178 million in 2009 and utilized cash of \$1,470 million in 2008. Financing activities for 2010 include \$323 million in cash paid for share repurchases and \$218 million in cash paid on our long-term debt, which primarily consisted of \$215 million paid on the maturity of our 9.13% Series C Senior Notes in March 2010. Financing activities for 2009 include our February 2009 issuance of \$350 million of 6.50% notes due 2014 and \$350 million of 7.50% notes due 2019. Net proceeds of \$693 million from the issuance of the notes, after discounts and offering expenses, were used by the Company for general corporate purposes. Financing activities for 2009 were also impacted by \$502 million of cash paid for share repurchases, \$116 million of dividends paid and \$97 million of cash receipts from employees' exercises of stock options.

Financing activities for 2008 included \$1.7 billion of cash paid for stock repurchases and \$70 million of dividends paid, partially offset by \$354 million of cash receipts from common stock issuances.

The Company's Board has authorized the repurchase of McKesson's common stock from time-to-time in open market transactions, privately negotiated transactions, through accelerated share repurchase programs, or by any combination of such methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations and other market and economic conditions. This authorization is described in more detail in Financial Note 19, "Stockholders' Equity," to the consolidated financial statements appearing in this Annual Report on Form 10-K. During 2010, 2009 and 2008, the Company repurchased \$299 million, \$484 million and \$1,686 million of its common stock at average prices of \$41.47, \$50.52 and \$59.48. As of March 31, 2010, \$531 million remained available for future repurchases under the outstanding April 2008 Board approved share repurchase plan. In April 2010, the Board authorized the repurchase of up to an additional \$1.0 billion of the Company's common stock.

In July 2008, the Board authorized the retirement of shares of the Company's common stock that may be repurchased from time-to-time pursuant to its stock repurchase program. During the second quarter of 2009, all of the 4 million repurchased shares, which we purchased for \$204 million, were formally retired by the Company. The retired shares constitute authorized but unissued shares. We elected to allocate any excess of share repurchase price over par value between additional paid-in capital and retained earnings. As such, \$165 million was recorded as a decrease to retained earnings.

The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon the Company's future earnings, financial condition, capital requirements and other factors.

Although we believe that our operating cash flow, financial assets, current access to capital and credit markets, as evidenced by our debt issuance in February 2009, including our existing credit and sales facilities, will give us the ability to meet our financing needs for the foreseeable future, there can be no assurance that continued or increased volatility and disruption in the global capital and credit markets will not impair our liquidity or increase our costs of borrowing.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Selected Measures of Liquidity and Capital Resources:

<i>(Dollars in millions)</i>	March 31,		
	2010	2009	2008
Cash and cash equivalents	\$ 3,731	\$ 2,109	\$ 1,362
Working capital	4,492	3,065	2,438
Debt, net of cash and cash equivalents	(1,434)	403	435
Debt to capital ratio ⁽¹⁾	23.4%	28.9%	22.7%
Net debt to net capital employed ⁽²⁾	(23.5)%	6.1%	6.6%
Return on stockholders' equity ⁽³⁾	18.7%	13.2%	15.6%

(1) Ratio is computed as total debt divided by total debt and stockholders' equity.

(2) Ratio is computed as total debt, net of cash and cash equivalents ("net debt"), divided by net debt and stockholders' equity ("net capital employed").

(3) Ratio is computed as net income, divided by a five-quarter average of stockholders' equity.

Our cash and equivalents balance as of March 31, 2010, included approximately \$1.2 billion of cash held by our subsidiaries outside of the United States. Although the vast majority of cash held outside the United States is available for repatriation, doing so could subject us to U.S. federal, state and local income tax. We may temporarily access cash held by foreign subsidiaries without subjecting us to U.S. federal, state and local income tax through intercompany loans. A notice issued by the IRS in January 2009 announced that the Treasury Department will, for a temporary period, extend the permitted duration of such intercompany loans that qualify for suspended deemed dividend treatment under Section 956 of the Internal Revenue Code of 1986, as amended. Pursuant to the IRS notice, such intercompany loans from foreign subsidiaries to the U.S. parent must be less than 60 days in duration and borrowing activities cannot exceed 180 cumulative days during the year. At March 31, 2010, there were no intercompany loans outstanding. The position set forth in the notice will apply for the Company until March 31, 2011.

Working capital primarily includes cash and cash equivalents, receivables and inventories, net of drafts and accounts payable, deferred revenue and other current liabilities. Our Distribution Solutions segment requires a substantial investment in working capital that is susceptible to large variations during the year as a result of inventory purchase patterns and seasonal demands. Inventory purchase activity is a function of sales activity and customer requirements.

Consolidated working capital increased at March 31, 2010, compared to March 31, 2009, primarily due to increases in cash and cash equivalents, partially offset by an increase in net financial inventory and repayment of \$215 million of our long-term debt in March 2010. Consolidated working capital increased at March 31, 2009, compared to March 31, 2008, primarily due to increases in cash and cash equivalents and accounts receivable, partially offset by our \$493 million AWP litigation accrual and a higher current portion of long-term debt.

Our ratio of net debt to net capital employed decreased at March 31, 2010, compared to March 31, 2009, primarily reflecting an increase in cash and cash equivalents and repayment of \$215 million of our long-term debt in March 2010. This ratio decreased at March 31, 2009, compared to March 31, 2008, primarily reflecting an increase in cash and cash equivalents, partially offset by our issuance of \$700 million of long-term debt.

The Company has paid quarterly cash dividends at the rate of \$0.06 per share on its common stock since the fourth quarter of 1999. In April 2008, the quarterly dividend was raised from six cents to twelve cents per share. The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon the Company's future earnings, financial condition, capital requirements and other factors. In 2010, 2009 and 2008, we paid total cash dividends of \$131 million, \$116 million and \$70 million.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Contractual Obligations:

The table below presents our significant financial obligations and commitments at March 31, 2010:

(In millions)	Total	Years				
		Within 1	Over 1 to 3	Over 3 to 5	After 5	
On balance sheet						
Long-term debt ⁽¹⁾	\$ 2,296	\$ 3	\$ 919	\$ 350	\$ 1,024	
Other ⁽²⁾	300	22	48	128	102	
Off balance sheet						
Interest on borrowings ⁽³⁾	879	149	258	156	316	
Purchase obligations ⁽⁴⁾	3,272	3,059	121	66	26	
Customer guarantees ⁽⁵⁾	146	64	25	6	51	
Operating lease obligations ⁽⁶⁾	363	106	140	67	50	
Total	\$ 7,256	\$ 3,403	\$ 1,511	\$ 773	\$ 1,569	

- (1) Represents maturities of the Company's long-term obligations including an immaterial amount of capital lease obligations. See Financial Note 12, "Long-Term Debt and Other Financing," for further information.
- (2) Represents our estimated benefit payments for the unfunded benefit plans and minimum funding requirements for the pension plans.
- (3) Primarily represents interest that will become due on our fixed rate long-term debt obligations.
- (4) A purchase obligation is defined as an arrangement to purchase goods or services that is enforceable and legally binding on the Company. These obligations primarily relate to inventory purchases, capital commitments and service agreements.
- (5) Represents primarily agreements with certain of our customers' financial institutions (primarily for our Canadian business) under which we have guaranteed the repurchase of inventory at a discount in the event these customers are unable to meet certain obligations to those financial institutions. Among other limitations, these inventories must be in resalable condition. The inventory repurchase agreements mostly range from one to two years. Customer guarantees range from one to five years and were primarily provided to facilitate financing for certain customers. The majority of our other customer guarantees are secured by certain assets of the customer. At March 31, 2010, the maximum amounts of inventory repurchase guarantees and other customer guarantees were \$124 million and \$17 million. We consider it unlikely that we would make significant payments under these guarantees and accordingly, no amounts had been accrued at March 31, 2010. Refer to Financial Note 17, "Financial Guarantees and Warranties," for further information.
- (6) Represents minimum rental payments for operating leases. See Financial Note 16, "Lease Obligations," for further information.

At March 31, 2010, the liability recorded for uncertain tax positions, excluding associated interest and penalties, was approximately \$514 million. This liability represents an estimate of tax positions that the Company has taken in its tax returns which may ultimately not be sustained upon examination by the tax authorities. Since the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty, the estimated liability has been excluded from the contractual obligations table.

In addition, at March 31, 2010, our banks and insurance companies have issued \$111 million of standby letters of credit and surety bonds, which were issued on our behalf mostly related to our customer contracts and in order to meet the security requirements for statutory licenses and permits, court and fiduciary obligations and our workers' compensation and automotive liability programs.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)***Credit Resources:*

We fund our working capital requirements primarily with cash and cash equivalents, our accounts receivable sales facility, short-term borrowings under the revolving credit facility and commercial paper.

Long-Term Debt

In March 2010, we repaid our \$215 million 9.13% Series C Senior notes, which had matured.

On February 12, 2009, we issued 6.50% notes due February 15, 2014, (the “2014 Notes”) in an aggregate principal amount of \$350 million and 7.50% notes due February 15, 2019, (the “2019 Notes”) in an aggregate principal amount of \$350 million. Interest is payable on February 15 and August 15 of each year beginning on August 15, 2009. The 2014 Notes will mature on February 15, 2014 and the 2019 Notes will mature on February 15, 2019. We utilized net proceeds, after discounts and offering expenses, of \$693 million from the issuance of the 2014 Notes and 2019 Notes for general corporate purposes.

Our senior debt credit ratings from S&P, Fitch, and Moody’s are currently A-, BBB+ and Baa3, and our commercial paper ratings are currently A-2, F-2 and P-3. Our ratings outlook is stable with S&P, Fitch, and Moody’s.

Accounts Receivable Sales Facility

In May 2009, we renewed our accounts receivable sales facility for an additional one-year period under terms similar to those previously in place. The renewed facility will expire in mid-May 2010. Based on our existing accounts receivable sales facility agreement, we anticipate that activity under this facility may, for U.S. GAAP purposes, be considered as a secured borrowing rather than a sale under accounting standards that will become effective for us on April 1, 2010. We anticipate renewing this facility before its expiration. The aggregate commitment of the purchasers under this facility is \$1.1 billion, although from time-to-time, the available amount may be less than that amount based on concentration limits and receivable eligibility requirements.

Through this facility, McKesson Corporation, the parent company, sells certain U.S. pharmaceutical trade accounts receivable on a non-recourse basis to a wholly-owned and consolidated subsidiary, which then sells these receivables to a special purpose entity (“SPE”), which is a wholly-owned, bankruptcy-remote subsidiary of McKesson Corporation that is consolidated in our financial statements. This SPE then sells undivided interests in the receivables to third-party purchaser groups, each of which includes commercial paper conduits, which are special purpose legal entities administered by financial institutions.

Additional information regarding our accounts receivable sales facility is included in Financial Notes 1 and 12, “Significant Accounting Policies” and “Long-Term Debt and Other Financing,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Revolving Credit Facility

We have a syndicated \$1.3 billion five-year senior unsecured revolving credit facility, which expires in June 2012. Borrowings under this credit facility bear interest based upon either a Prime rate or the London Interbank Offering Rate. There were no borrowings under this facility in 2010 and \$279 million for 2009. As of March 31, 2010 and 2009, there were no amounts outstanding under this facility.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Commercial Paper

We issued and repaid commercial paper of nil and approximately \$3.3 billion and \$260 million in 2010, 2009 and 2008. There were no commercial paper issuances outstanding at March 31, 2010 and 2009.

Debt Covenant

Our various borrowing facilities and long-term debt are subject to certain covenants. Our principal debt covenant is our debt to capital ratio under our unsecured revolving credit facility, which cannot exceed 56.5%. If we exceed this ratio, repayment of debt outstanding under the revolving credit facility could be accelerated. As of March 31, 2010, this ratio was 23.4% and we were in compliance with our other financial covenants. A reduction in our credit ratings, or the lack of compliance with our covenants, could negatively impact our ability to finance operations or issue additional debt at acceptable interest rates.

Funds necessary for future debt maturities and our other cash requirements are expected to be met by existing cash balances, cash flow from operations, existing credit sources and other capital market transactions.

RELATED PARTY BALANCES AND TRANSACTIONS

Information regarding our related party balances and transactions is included in Financial Note 20, "Related Party Balances and Transactions," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

NEW ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements that we have recently adopted, as well as those that have been recently issued but not yet adopted by us, are included in Financial Note 1, "Significant Accounting Policies," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

McKESSON CORPORATION**FINANCIAL REVIEW (Concluded)****Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

Interest rate risk: Our long-term debt bears interest predominately at fixed rates, whereas our short-term borrowings are at variable interest rates. If the underlying weighted average interest rate on our variable rate debt were to have changed by 50 bp in 2010, interest expense would not have been materially different from that reported.

Our cash and cash equivalents balances earn interest at variable rates. Should interest rates decline, our interest income may be negatively impacted. If the underlying weighted average interest rate on our cash and cash equivalents balances changed by 50 bp in 2010, interest income would have increased or decreased by approximately \$16 million.

As of March 31, 2010 and 2009, the net fair value liability of financial instruments with exposure to interest rate risk was approximately \$2,548 million and \$2,545 million. The estimated fair value of our long-term debt and other financing was determined using quoted market prices and other inputs that were derived from available market information and may not be representative of actual values that could have been realized or that will be realized in the future. Fair value is subject to fluctuations based on our performance, our credit ratings, changes in the value of our stock and changes in interest rates for debt securities with similar terms.

Foreign exchange risk: We derive revenues and earnings from Canada, the United Kingdom, Ireland, other European countries, Israel, Asia Pacific and Mexico, which exposes us to changes in foreign exchange rates. We seek to manage our foreign exchange risk in part through operational means, including managing same currency revenues in relation to same currency costs, and same currency assets in relation to same currency liabilities. Foreign exchange risk is also managed through the use of foreign currency forward-exchange contracts. These contracts are used to offset the potential earnings effects from mostly intercompany foreign currency investments and loans. As of March 31, 2010, an adverse 10% change in quoted foreign currency exchange rates would not have had a material impact on our net fair value of financial instruments that have exposure to foreign currency risk.

McKESSON CORPORATION**Item 8. Financial Statements and Supplementary Data****INDEX TO CONSOLIDATED FINANCIAL INFORMATION**

	<u>Page</u>
Management's Annual Report on Internal Control Over Financial Reporting	51
Report of Independent Registered Public Accounting Firm	52
Consolidated Financial Statements:	
Consolidated Statements of Operations for the years ended March 31, 2010, 2009 and 2008	53
Consolidated Balance Sheets as of March 31, 2010 and 2009	54
Consolidated Statements of Stockholders' Equity for the years ended March 31, 2010, 2009 and 2008	55
Consolidated Statements of Cash Flows for the years ended March 31, 2010, 2009 and 2008	56
Financial Notes	57

McKESSON CORPORATION

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of McKesson Corporation is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). With the participation of the Chief Executive Officer and the Chief Financial Officer, our management conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework and criteria established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management has concluded that our internal control over financial reporting was effective as of March 31, 2010.

Deloitte & Touche LLP, an independent registered public accounting firm, audited the financial statements included in this Annual Report on Form 10-K and has also audited the effectiveness of the Company's internal control over financial reporting as of March 31, 2010. This audit report appears on page 52 of this Annual Report on Form 10-K.

May 4, 2010

/s/ John H. Hammergren

John H. Hammergren

Chairman, President and Chief Executive Officer
(Principal Executive Officer)

/s/ Jeffrey C. Campbell

Jeffrey C. Campbell

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

McKESSON CORPORATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of McKesson Corporation:

We have audited the accompanying consolidated balance sheets of McKesson Corporation and subsidiaries (the “Company”) as of March 31, 2010 and 2009, and the related consolidated statements of operations, stockholders’ equity and cash flows for each of the three fiscal years in the period ended March 31, 2010. Our audit also included the consolidated financial statement schedule (“financial statement schedule”) listed in the Index at Item 15(a). We also have audited the Company’s internal control over financial reporting as of March 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management’s Annual Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on these financial statements and financial statement schedule, and an opinion on the Company’s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of McKesson Corporation and subsidiaries as of March 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three fiscal years in the period ended March 31, 2010, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2010, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP San Francisco, California
May 4, 2010

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share amounts)

	Years Ended March 31,		
	2010	2009	2008
Revenues	\$ 108,702	\$ 106,632	\$ 101,703
Cost of Sales	103,026	101,254	96,694
Gross Profit	5,676	5,378	5,009
Operating Expenses			
Selling	746	743	744
Distribution	882	943	886
Research and development	376	364	347
Administrative	1,684	1,639	1,559
Litigation charge (credit), net	(20)	493	(5)
Total Operating Expenses	3,668	4,182	3,531
Operating Income	2,008	1,196	1,478
Other Income, Net	43	12	121
Interest Expense	(187)	(144)	(142)
Income from Continuing Operations Before Income Taxes	1,864	1,064	1,457
Income Tax Expense	(601)	(241)	(468)
Income from Continuing Operations	1,263	823	989
Discontinued operations, net	—	—	1
Net Income	\$ 1,263	\$ 823	\$ 990
Earnings Per Common Share			
Diluted			
Continuing operations	\$ 4.62	\$ 2.95	\$ 3.32
Discontinued operations, net	—	—	—
Total	\$ 4.62	\$ 2.95	\$ 3.32
Basic			
Continuing operations	\$ 4.70	\$ 2.99	\$ 3.40
Discontinued operations, net	—	—	—
Total	\$ 4.70	\$ 2.99	\$ 3.40
Weighted Average Common Shares			
Diluted	273	279	298
Basic	269	275	291

See Financial Notes

McKESSON CORPORATION

CONSOLIDATED BALANCE SHEETS
(In millions, except per share amounts)

	March 31,	
	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 3,731	\$ 2,109
Receivables, net	8,075	7,774
Inventories, net	9,441	8,527
Prepaid expenses and other	257	261
Total	<u>21,504</u>	<u>18,671</u>
Property, Plant and Equipment, Net	851	796
Capitalized Software Held for Sale, Net	234	221
Goodwill	3,568	3,528
Intangible Assets, Net	551	661
Other Assets	1,481	1,390
Total Assets	<u>\$ 28,189</u>	<u>\$ 25,267</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Drafts and accounts payable	\$ 13,255	\$ 11,739
Deferred revenue	1,218	1,145
Current portion of long-term debt	3	219
Other accrued liabilities	2,536	2,503
Total	<u>17,012</u>	<u>15,606</u>
Long-Term Debt	2,293	2,290
Other Noncurrent Liabilities	1,352	1,178
Other Commitments and Contingent Liabilities (Note 18)		
Stockholders' Equity		
Preferred stock, \$0.01 par value, 100 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.01 par value		
Shares authorized: 2010 and 2009 – 800		
Shares issued: 2010 – 359, 2009 – 351	4	4
Additional Paid-in Capital	4,756	4,417
Retained Earnings	7,236	6,103
Accumulated Other Comprehensive Income (Loss)	6	(179)
Other	(12)	(8)
Treasury Shares, at Cost, 2010 – 88 and 2009 – 80	<u>(4,458)</u>	<u>(4,144)</u>
Total Stockholders' Equity	<u>7,532</u>	<u>6,193</u>
Total Liabilities and Stockholders' Equity	<u>\$ 28,189</u>	<u>\$ 25,267</u>

See Financial Notes

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended March 31, 2010, 2009 and 2008
(In millions, except per share amounts)

	Common Stock		Additional Paid-in Capital	Other Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	ESOP Notes and Guarantees	Treasury		Stockholders' Equity	Other Comprehensive Income (Loss)
	Shares	Amount						Common Shares	Amount		
Balances, March 31, 2007	341	\$ 3	\$ 3,722	\$ (19)	\$ 4,712	\$ 31	\$ (14)	(46)	\$ (2,162)	\$ 6,273	
Issuance of shares under employee plans	10	1	354						(12)	343	
Share-based compensation			91							91	
Tax benefit related to issuance of shares under employee plans			85							85	
ESOP note collections							11			11	
Translation adjustments						95				95	95
Unrealized net gain and other components of benefit plans, net of tax of \$(13)						26				26	26
Net income					990					990	990
Repurchase of common stock								(28)	(1,686)	(1,686)	
Cash dividends declared, \$0.24 per common share					(70)					(70)	
Adoption of ASC 740-10					(46)					(46)	
Other				9						9	
Balances, March 31, 2008	351	\$ 4	\$ 4,252	\$ (10)	\$ 5,586	\$ 152	\$ (3)	(74)	\$ (3,860)	\$ 6,121	\$ 1,111
Issuance of shares under employee plans	4		97						(19)	78	
ESOP funding									15	15	
Share-based compensation			99							99	
Tax benefit related to issuance of shares under employee plans			8							8	
ESOP note collections							2			2	
Translation adjustments						(273)				(273)	(273)
Unrealized net loss and other components of benefit plans, net of tax benefit of \$33						(57)				(57)	(57)
Net income					823					823	823
Repurchase and retirement of common stock	(4)		(39)		(165)			(6)	(280)	(484)	
Cash dividends declared, \$0.48 per common share					(134)					(134)	
Other				3	(7)	(1)				(5)	
Balances, March 31, 2009	351	\$ 4	\$ 4,417	\$ (7)	\$ 6,103	\$ (179)	\$ (1)	(80)	\$ (4,144)	\$ 6,193	\$ 493
Issuance of shares under employee plans	8		218					(1)	(24)	194	
Share-based compensation			114							114	
Tax benefit related to issuance of shares under employee plans			11							11	
ESOP note collections							1			1	
Translation adjustments						238				238	238
Unrealized net loss and other components of benefit plans, net of tax benefit of \$32						(53)				(53)	(53)
Net income					1,263					1,263	1,263
Repurchase of common stock								(7)	(299)	(299)	
Cash dividends declared, \$0.48 per common share					(131)					(131)	
Other			(4)	(5)	1				9	1	
Balances, March 31, 2010	359	\$ 4	\$ 4,756	\$ (12)	\$ 7,236	\$ 6	\$ —	(88)	\$ (4,458)	\$ 7,532	\$ 1,448

See Financial Notes

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Years Ended March 31,		
	2010	2009	2008
Operating Activities			
Net income	\$ 1,263	\$ 823	\$ 990
Discontinued operations, net of income taxes	—	—	(1)
Adjustments to reconcile to net cash provided by (used in) operating activities:			
Depreciation	148	133	124
Amortization	326	308	247
Provision for bad debts	17	29	41
Impairment of investments	—	63	—
Other deferred taxes	161	320	196
Share-based compensation expense	114	99	91
Other non-cash items	(20)	(99)	(107)
Changes in operating assets and liabilities, net of business acquisitions:			
Receivables	(133)	(708)	(288)
Inventories	(782)	370	(676)
Drafts and accounts payable	1,340	(189)	762
Deferred revenue	27	(55)	98
Taxes	88	(47)	336
Litigation charge (credit), net	(20)	493	(5)
Litigation settlement payments	(350)	—	(962)
Deferred tax (benefit) expense on litigation	116	(172)	2
Other	21	(17)	21
Net cash provided by operating activities	2,316	1,351	869
Investing Activities			
Property acquisitions	(199)	(195)	(195)
Capitalized software expenditures	(179)	(197)	(161)
Acquisitions of businesses, less cash and cash equivalents acquired	(18)	(358)	(610)
Proceeds from sale of businesses	1	63	—
Restricted cash for litigation charge, net	55	(55)	962
Other	31	15	(1)
Net cash used in investing activities	(309)	(727)	(5)
Financing Activities			
Proceeds from short-term borrowings	5	3,630	260
Repayments of short-term borrowings	(6)	(3,630)	(260)
Proceeds from issuances of long-term debt, net	—	699	—
Repayment of long-term debt	(218)	(4)	(162)
Common stock transactions:			
Issuances	212	97	354
Share repurchases, including shares surrendered for tax withholding	(323)	(298)	(1,698)
Share repurchases, retirements	—	(204)	—
Dividends paid	(131)	(116)	(70)
Other	40	4	106
Net cash provided by (used in) financing activities	(421)	178	(1,470)
Effect of exchange rate changes on cash and cash equivalents	36	(55)	14
Net increase (decrease) in cash and cash equivalents	1,622	747	(592)
Cash and cash equivalents at beginning of year	2,109	1,362	1,954
Cash and cash equivalents at end of year	\$ 3,731	\$ 2,109	\$ 1,362
Supplemental Cash Flow Information			
Cash paid for:			
Interest	\$ 188	\$ 139	\$ 146
Income taxes, net of refunds	234	235	(66)

See Financial Notes

McKESSON CORPORATION

FINANCIAL NOTES

1. Significant Accounting Policies

Nature of Operations: McKesson Corporation (“McKesson,” the “Company,” or “we” and other similar pronouns) is a corporation that delivers medicines, pharmaceutical supplies, information and care management products and services designed to reduce costs and improve quality across the healthcare industry.

We conduct our business through two operating segments, McKesson Distribution Solutions and McKesson Technology Solutions, as further described in Financial Note 21, “Segments of Business.”

Basis of Presentation: The consolidated financial statements and accompanying notes are prepared in accordance with U. S. generally accepted accounting principles (“GAAP”). The consolidated financial statements of McKesson include the financial statements of all wholly-owned subsidiaries, majority-owned or controlled companies and certain immaterial variable interest entities (“VIEs”) of which the Company is the primary beneficiary. We evaluate our ownership, contractual and other interests in entities to determine if they are VIEs, if we have a variable interest in those entities and the nature and extent of those interests. These evaluations are highly complex and involve judgment and the use of estimates and assumptions based on available historical information and management’s judgment, among other factors. Intercompany transactions and balances have been eliminated.

Fiscal Period: The Company’s fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references to a particular year shall mean the Company’s fiscal year.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation.

Use of Estimates: The preparation of financial statements in conformity with U.S. GAAP requires that we make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual amounts could differ from those estimated amounts.

Cash and Cash Equivalents: All highly liquid debt instruments purchased with original maturity of three months or less at the date of acquisition are included in cash and cash equivalents.

We maintain cash and cash equivalents with several financial institutions. Bank deposits may exceed the amount of federal deposit insurance. Cash equivalents may be invested in money market funds. We mitigate the risk of our short-term investment portfolio by investing the majority of funds in U.S. government securities, depositing funds with reputable financial institutions and monitoring risk profiles and investment strategies of money market funds.

Restricted Cash: Cash that is subject to legal restrictions or is unavailable for general operating purposes is classified as restricted cash and included within prepaid expenses and other in the consolidated balance sheets. At March 31, 2010 and 2009, restricted cash was not material.

Marketable Securities Available for Sale: We carry our marketable securities, which are available for sale, at fair value and they are included in prepaid expenses and other in the consolidated balance sheets. The net unrealized gains and losses, net of the related tax effect, computed in marking these securities to market have been reported within stockholders’ equity. At March 31, 2010 and 2009, marketable securities were not material.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Concentrations of Credit Risk and Receivables: Our trade receivables are subject to a concentration of credit risk with customers primarily in our Distribution Solutions segment. At March 31, 2010, revenues and accounts receivable from our ten largest customers accounted for approximately 53% of consolidated revenues and 45% of accounts receivable. At March 31, 2010, revenues and accounts receivable from our two largest customers, CVS Caremark Corporation (“CVS”) and Rite Aid Corporation (“Rite Aid”), represented approximately 15% and 12% of total consolidated revenues and 14% and 10% of accounts receivable. As a result, our sales and credit concentration is significant. A default in payment, a material reduction in purchases from these, or any other large customers or the loss of a large customer could have a material adverse impact on our financial condition, results of operations and liquidity. In addition, trade receivables are subject to a concentration of credit risk with customers in the institutional, retail and healthcare provider sectors, which can be affected by a downturn in the economy and changes in reimbursement policies. This credit risk is mitigated by the size and diversity of the customer base as well as its geographic dispersion. We estimate the receivables for which we do not expect full collection based on historical collection rates and ongoing evaluations of the creditworthiness of our customers. An allowance is recorded in our consolidated financial statements for these amounts.

Inventories: We report inventories at the lower of cost or market (“LCM”). Inventories for our Distribution Solutions segment consist of merchandise held for resale. For our Distribution Solutions segment, the majority of the cost of domestic inventories is determined using the last-in, first-out (“LIFO”) method and the cost of Canadian inventories is determined using the first-in, first-out (“FIFO”) method. Technology Solutions segment inventories consist of computer hardware with cost determined by the standard cost method. Rebates, fees, cash discounts, allowances, chargebacks and other incentives received from vendors are generally accounted for as a reduction in the cost of inventory and are recognized when the inventory is sold. Total inventories were \$9.4 billion and \$8.5 billion at March 31, 2010 and 2009.

The LIFO method was used to value approximately 87% and 88% of our inventories at March 31, 2010 and 2009. At March 31, 2010 and 2009, our LIFO reserves, net of LCM adjustments, were \$93 million and \$85 million. LIFO reserves include both pharmaceutical and non-pharmaceutical products. In 2010 and 2009, we recognized net LIFO expense of \$8 million and in 2008, net LIFO credits of \$14 million within our consolidated statements of operations. In 2010, our \$8 million net LIFO expense related to our non-pharmaceutical products. A LIFO expense is recognized when the net effect of price increases on branded pharmaceuticals and non-pharmaceutical products held in inventory exceeds the impact of price declines and shifts towards generic pharmaceuticals, including the effect of branded pharmaceutical products that have lost market exclusivity. A LIFO credit is recognized when the impact of price declines and shifts towards generic pharmaceuticals exceeds the impact of price increases on branded pharmaceuticals and non-pharmaceutical products held in inventory.

We believe that the FIFO inventory costing method provides a reasonable estimation of the current cost of replacing inventory (i.e., “market”). As such, our LIFO inventory is valued at the lower of LIFO or inventory as valued under FIFO. Primarily due to continued deflation in generic pharmaceutical inventories, pharmaceutical inventories at LIFO were \$112 million and \$107 million higher than FIFO as of March 31, 2010 and 2009. As a result, in 2010 and 2009, we recorded LCM charges of \$5 million and \$64 million in cost of sales within our consolidated statements of operations to adjust our LIFO inventories to market.

Property, Plant and Equipment: We state our property, plant and equipment at cost and depreciate them under the straight-line method at rates designed to distribute the cost of properties over estimated service lives ranging from one to 30 years.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Capitalized Software Held for Sale: Development costs for software held for sale, which primarily pertain to our Technology Solutions segment, are capitalized once a project has reached the point of technological feasibility. Completed projects are amortized after reaching the point of general availability using the straight-line method based on an estimated useful life of approximately three years. We monitor the net realizable value of capitalized software held for sale to ensure that the investment will be recovered through future sales.

Additional information regarding our capitalized software expenditures is as follows:

(In millions)	Years Ended March 31,		
	2010	2009	2008
Amounts capitalized	\$ 75	\$ 74	\$ 73
Amortization expense	67	50	44
Third-party royalty fees paid	63	50	52

Goodwill: Goodwill is tested for impairment on an annual basis or more frequently if indicators for potential impairment exist. Impairment testing is conducted at the reporting unit level, which is generally defined as a component - one level below our Distribution Solutions and Technology Solutions operating segments, for which discrete financial information is available and segment management regularly reviews the operating results of that unit. Components that have essentially similar operations, products, services and customers are aggregated as a single reporting unit.

Impairment tests require that we first compare the carrying value of net assets to the estimated fair value of net assets for the reporting units. If the carrying value exceeds the fair value, a second step is performed to calculate the amount of impairment, which would be recorded as a charge in the consolidated statements of operations. The fair value of a reporting unit is based upon a number of considerations including projections of revenues, earnings and discounted cash flows and determination of market value multiples for similar businesses or guideline companies whose securities are actively traded in public markets. The discount rate used for cash flows reflects capital market conditions and the specific risks associated with the business. In addition, we compare the aggregate of the reporting units' fair value to the Company's market capitalization as a further corroboration of the fair value. The testing requires a complex series of assumptions and judgment by management in projecting future operating results, selecting guideline companies for comparisons and assessing risks. The use of alternative assumptions and estimates could affect the fair values and change the impairment determinations. There were no goodwill impairments during 2010, 2009, or 2008.

Intangible assets: Currently all of our intangible assets are subject to amortization and are amortized over their estimated period of benefit, ranging from one to fifteen years. We evaluate the recoverability of intangible assets periodically and take into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists. No material impairments of intangible assets have been identified during any of the years presented.

Capitalized Software Held for Internal Use: We capitalize costs of software held for internal use during the application development stage of a project and amortize those costs over the assets' estimated useful lives ranging from one to ten years. As of March 31, 2010 and 2009, capitalized software held for internal use was \$483 million and \$475 million, net of accumulated amortization of \$665 million and \$567 million, and was included in other assets in the consolidated balance sheets.

Insurance Programs: Under our insurance programs, we seek to obtain coverage for catastrophic exposures as well as those risks required to be insured by law or contract. It is our policy to retain a significant portion of certain losses primarily related to workers' compensation and comprehensive general, product and vehicle liability. Provisions for losses expected under these programs are recorded based upon our estimate of the aggregate liability for claims incurred as well as for claims incurred but not yet reported. Such estimates utilize certain actuarial assumptions followed in the insurance industry.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Revenue Recognition: Revenues for our Distribution Solutions segment are recognized when product is delivered and title passes to the customer or when services have been rendered and there are no further obligations to customers.

Revenues are recorded net of sales returns, allowances, rebates and other incentives. Our sales return policy generally allows customers to return products only if they can be resold for value or returned to suppliers for full credit. Sales returns are accrued based on estimates at the time of sale to the customer. Sales returns from customers were approximately \$1,233 million, \$1,216 million and \$1,093 million in 2010, 2009 and 2008. Taxes collected from customers and remitted to governmental authorities are presented on a net basis; that is, they are excluded from revenues.

The revenues for our Distribution Solutions segment include large volume sales of pharmaceuticals to a limited number of large customers who warehouse their own product. We order bulk product from the manufacturer, receive and process the product through our central distribution facility and deliver the bulk product (generally in the same form as received from the manufacturer) directly to our customers' warehouses. Sales to customers' warehouses amounted to \$21.4 billion in 2010, \$25.8 billion in 2009 and \$27.7 billion in 2008. We also record revenues for direct store deliveries from most of these same customers. Direct store deliveries are shipments from the manufacturer to our customers of a limited category of products that require special handling. We assume the primary liability to the manufacturer for these products.

Revenues are recorded gross when we are the primary party obligated in the transaction, take title to and possession of the inventory, are subject to inventory risk, have latitude in establishing prices, assume the risk of loss for collection from customers as well as delivery or return of the product, are responsible for fulfillment and other customer service requirements, or the transactions have several but not all of these indicators.

Our Distribution Solutions segment also engages in multiple-element arrangements, which may contain a combination of various products and services. Revenue from a multiple element arrangement is allocated to the separate elements based on estimates of fair value and recognized in accordance with the revenue recognition criteria applicable to each element. If fair value cannot be established for any undelivered element, all of the arrangement's revenue is deferred until delivery of the last element has occurred and services have been performed or until fair value can objectively be determined for any remaining undelivered elements.

Revenues for our Technology Solutions segment are generated primarily by licensing software and software systems (consisting of software, hardware and maintenance support), and providing outsourcing and professional services. Revenue for this segment is recognized as follows:

Software systems are marketed under information systems agreements as well as service agreements. Perpetual software arrangements are recognized at the time of delivery or under the percentage-of-completion method based on the terms and conditions in the contract. Contracts accounted for under the percentage-of-completion method are generally measured based on the ratio of labor costs incurred to date to total estimated labor costs to be incurred. Changes in estimates to complete and revisions in overall profit estimates on these contracts are charged to earnings in the period in which they are determined. We accrue for contract losses if and when the current estimate of total contract costs exceeds total contract revenue.

Hardware revenues are generally recognized upon delivery. Revenue from multi-year software license agreements is recognized ratably over the term of the agreement. Software implementation fees are recognized as the work is performed or under the percentage-of-completion method. Maintenance and support agreements are marketed under annual or multi-year agreements and are recognized ratably over the period covered by the agreements. Subscription, content and transaction processing fees are generally marketed under annual and multi-year agreements and are recognized ratably over the contracted terms beginning on the service start date for fixed fee arrangements and recognized as transactions are performed beginning on the service start date for per-transaction fee arrangements. Remote processing service fees are recognized monthly as the service is performed. Outsourcing service revenues are recognized as the service is performed.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

We also offer certain products on an application service provider basis, making our software functionality available on a remote hosting basis from our data centers. The data centers provide system and administrative support, as well as hosting services. Revenue on products sold on an application service provider basis is recognized on a monthly basis over the term of the contract beginning on the service start date of products hosted.

This segment also engages in multiple-element arrangements, which may contain any combination of software, hardware, implementation or consulting services, or maintenance services. When some elements are delivered prior to others in an arrangement and vendor-specific objective evidence of fair value (“VSOE”) exists for the undelivered elements, revenue for the delivered elements is recognized upon delivery of such items. The segment establishes VSOE for hardware and implementation and consulting services based on the price charged when sold separately, and for maintenance services, based on renewal rates offered to customers. Revenue for the software element is recognized under the residual method only when fair value has been established for all of the undelivered elements in an arrangement. If fair value cannot be established for any undelivered element, all of the arrangement’s revenue is deferred until the delivery of the last element or until the fair value of the undelivered element is determinable.

Our Technology Solutions segment also includes revenues from disease management programs provided to various states’ Medicaid programs. These service contracts include provisions for achieving certain cost-savings and clinical targets. If the targets are not met for certain of these contracts, a portion, or all, of the revenue must be refunded to the customer. We recognize revenue during the term of the contract by assessing actual performance against contractual targets and then determining the amount the customer would be legally obligated to pay if the contract terminated as of the measurement date. These assessments include estimates of medical claims and other data in accordance with the contract methodology. Because complete data is unavailable until six to nine months after the measurement period, there is generally a significant time delay between recording the accrual and the final settlement of the contract. If data is insufficient to assess performance or we have not met the targets, we defer recognition of the revenue. As of March 31, 2010 and 2009, we had deferred \$26 million and \$25 million related to these types of contracts, which was included in deferred revenue in the consolidated balance sheets. We generally have been successful in achieving performance targets under these agreements.

Supplier Incentives: Fees for service and other incentives received from suppliers, relating to the purchase or distribution of inventory, are generally reported as a reduction to cost of goods sold. We consider these fees to represent product discounts and as a result, the fees are recorded as a reduction of product cost and recognized through cost of goods sold upon the sale of the related inventory.

Supplier Reserves: We establish reserves against amounts due from suppliers relating to various price and rebate incentives, including deductions or billings taken against payments otherwise due to them. These reserve estimates are established based on judgment after carefully considering the status of current outstanding claims, historical experience with the suppliers, the specific incentive programs and any other pertinent information available. We evaluate the amounts due from suppliers on a continual basis and adjust the reserve estimates when appropriate based on changes in factual circumstances. The ultimate outcome of any outstanding claim may be different than our estimate. As of March 31, 2010 and 2009, supplier reserves were \$89 million and \$113 million.

Income Taxes: We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statements and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Tax benefits from uncertain tax positions are recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The amount recognized is measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon effective settlements. Deferred taxes are not provided on undistributed earnings of our foreign operations that are considered to be permanently reinvested.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Foreign Currency Translation: Our international subsidiaries generally consider their local currency to be their functional currency. Assets and liabilities of these international subsidiaries are translated into U.S. dollars at year-end exchange rates and revenues and expenses are translated at average exchange rates during the year. Cumulative currency translation adjustments are included in accumulated other comprehensive income or losses in the stockholders' equity section of the consolidated balance sheets. Realized gains and losses from currency exchange transactions are recorded in operating expenses in the consolidated statements of operations and were not material to our consolidated results of operations in 2010, 2009 or 2008.

Derivative Financial Instruments: Derivative financial instruments are used principally in the management of foreign currency and interest rate exposures and are recorded on the consolidated balance sheets at fair value. If a derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized as a charge or credit to earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in accumulated other comprehensive income or losses and are recognized in the consolidated statements of operations when the hedged item affects earnings. We periodically evaluate hedge effectiveness and ineffective portions of changes in the fair value of cash flow hedges are recognized as a charge or credit to earnings. Derivative instruments not designated as hedges are marked-to-market at the end of each accounting period with the change included in earnings.

Accounts Receivable Sales: At March 31, 2010, we had a \$1.1 billion revolving receivables sales facility. Through this facility, McKesson Corporation, the parent company, sells certain U.S. pharmaceutical trade accounts receivable on a non-recourse basis to a wholly-owned and consolidated subsidiary, which then sells these receivables to a special purpose entity ("SPE"), which is a wholly-owned, bankruptcy-remote subsidiary of McKesson Corporation that is consolidated in our financial statements. This SPE then sells undivided interests in the receivables to third-party purchaser groups, each of which includes commercial paper conduits ("Conduits"), which are special purpose legal entities administered by financial institutions. Sales of undivided interests in the receivables by the SPE to the Conduits are accounted for as a sale because we have relinquished control of the receivables. Accordingly, accounts receivable sold under these transactions are excluded from receivables, net in the accompanying consolidated balance sheets. Receivables sold and receivables retained by the Company are carried at face value, which due to the short-term nature of its accounts receivable and terms of the facility, approximates fair value. McKesson receives cash in the amount of the face value for the undivided interests in the receivables sold. No gain or loss is recorded upon sale as fee charges from the Conduits are based upon a floating yield rate and the period the undivided interests remain outstanding. Fee charges from the Conduits are accrued at the end of each month and are recorded within administrative expenses in the consolidated statements of operations. Should we default under the accounts receivable sales facility, the Conduits are entitled to receive only collections on receivables owned by the SPE.

We continue servicing the receivables sold. No servicing asset is recorded at the time of sale because we do not receive any servicing fees from third parties or other income related to servicing the receivables. We do not record any servicing liability at the time of sale as the receivables collection period is relatively short and the costs of servicing the receivables sold over the servicing period are insignificant. Servicing costs are recognized as incurred over the servicing period. See Financial Note 12, "Long-Term Debt and Other Financing," for additional information.

Share-Based Compensation: We account for all share-based compensation transactions using a fair-value based measurement method. The share-based compensation expense is recognized, for the portion of the awards that is ultimately expected to vest, on a straight-line basis over the requisite service period for those awards with graded vesting and service conditions. For awards with performance conditions and multiple vest dates, we recognize the expense on a graded vesting basis. For awards with performance conditions and a single vest date, we recognize the expense on a straight-line basis. The compensation expense recognized has been classified in the consolidated statements of operations or capitalized on the consolidated balance sheets in the same manner as cash compensation paid to our employees.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Loss Contingencies: We are subject to various claims, other pending and potential legal actions for damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of our business. We record a provision for a liability when management believes that it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Management reviews these provisions at least quarterly and adjusts them to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Because litigation outcomes are inherently unpredictable, these decisions often involve a series of complex assessments by management about future events that can rely heavily on estimates and assumptions and it is possible that the actual cost of these matters could impact our earnings, either negatively or positively, in the period of their resolution.

Recently Adopted Accounting Pronouncements

Accounting Standards CodificationTM: Effective July 1, 2009, we adopted the Financial Accounting Standards Board ("FASB") Accounting Standards CodificationTM ("ASC" or "Codification") as the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the U.S. Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. The Codification superseded all then-existing non-SEC accounting and reporting standards. The adoption of the Codification did not have a material effect on our consolidated financial statements.

Fair Value Measurements and Disclosures: In September 2006, the FASB issued new standards that provide a consistent definition of fair value that focuses on exit price, prioritizes the use of market-based inputs over entity-specific inputs for measuring fair value and establishes a three-level hierarchy for fair value measurements. In February 2008, the FASB permitted companies to defer the effective date of these standards for one year for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a nonrecurring basis. On April 1, 2008, we adopted the fair value measurements and disclosures for financial assets and financial liabilities and for nonfinancial assets and nonfinancial liabilities that are remeasured at least annually. At that time, we elected to defer adoption of the standards for one year, to April 1, 2009, for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The standards were applied prospectively and their adoption did not have a material effect on our consolidated financial statements. In April 2009, the FASB issued new standards for estimating fair value when an asset or liability experiences a significant decrease in volume and activity relative to its normal market activity. In addition, these standards identify circumstances that may indicate whether a transaction is not orderly. Retrospective application to a prior interim or annual reporting period was not permitted. On April 1, 2009, we adopted this standard, which did not have a material effect on our consolidated financial statements.

Effective October 1, 2009, we adopted amended standards on two issues: 1) determining the fair value of a liability when a quoted price in an active market for an identical liability is not available and 2) measuring and disclosing the fair value of certain investments on the basis of the investments' net asset value per share or its equivalent. This adoption did not have a material effect on our consolidated financial statements. However, these amended standards may affect the valuation of future investments.

In January 2010, the FASB issued amended standards that clarify and provide additional disclosure requirements related to recurring and non-recurring fair value measurements. These standards also amend requirements for employers' disclosures about postretirement benefit plan assets to conform to the fair value disclosure requirement. On January 1, 2010, we adopted these amended standards, except for the disclosures about the roll forward of activity in level 3 fair value measurements, which are effective for us on April 1, 2011. The adoption of these standards on January 1, 2010 did not have a material effect on our consolidated financial statements.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Business Combinations: On April 1, 2009, we adopted two sets of standards affecting business combinations. One set of standards amends the recognition and measurement of identifiable assets and goodwill acquired, liabilities assumed and any noncontrolling interest in the acquiree in a business combination. These standards also provide disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. In addition, adjustments made to valuation allowances on deferred taxes and acquired tax contingencies related to acquisitions made prior to April 1, 2009 fall within the scope of these standards.

The second set of standards addresses accounting for assets acquired and liabilities assumed that arise from contingencies in a business combination. These standards address application issues raised on the initial recognition and measurement, subsequent measurement and accounting for and disclosure of these assets and liabilities. The adoption of these standards did not have a material effect on our consolidated financial statements; however, it may have an effect on the accounting for any future acquisitions or divestitures.

Consolidation: On April 1, 2009, we adopted new standards on noncontrolling interests in consolidated financial statements. These standards require reporting entities to present noncontrolling interests in any of their consolidated entities as equity (as opposed to a liability or mezzanine equity) and provide guidance on the accounting for transactions between an entity and noncontrolling interests. This adoption did not have a material effect on our consolidated financial statements; however, these standards may have an effect on any future investments or divestitures of our investments.

On January 1, 2010, we adopted amended standards that clarify the accounting and disclosure for a decrease in ownership in a subsidiary or an exchange of a group of assets that is a business or nonprofit activity. This adoption did not have a material effect on our consolidated financial statements; however, these standards may affect future divestitures of subsidiaries or groups of assets within its scope.

Intangibles – Goodwill and Other: On April 1, 2009, we adopted two new standards affecting intangible assets. One of the standards addressed factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset.

The second standard affected accounting for defensive intangible assets, which are acquired assets that an entity does not intend to actively use, but will hold (lock up) to prevent others from obtaining access to them. These standards do not address intangible assets that are used in research and development activities. Neither of these standards had a material effect on our consolidated financial statements.

Earnings Per Share: On April 1, 2009, we adopted new standards that address whether instruments granted in share-based compensation transactions are participating securities. The new standards conclude that unvested share-based awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of basic earnings per share pursuant to the two-class method. This adoption did not have a material effect on our consolidated financial statements.

Investments – Equity Method and Joint Ventures: On April 1, 2009, we adopted new standards on the initial measurement of an equity method investment, testing of the investment for other-than-temporary impairment and accounting for any subsequent equity activities by the investee. This adoption did not have a material effect on our consolidated financial statements.

Investments – Debt and Equity Securities: On April 1, 2009, we adopted new standards that revise the criteria for recognizing other-than-temporary impairments of debt securities for which changes in fair value are not regularly recognized in earnings and the financial statement presentation of such impairments. The standards also expand and increase the frequency of disclosures related to other-than-temporary impairments of both debt and equity securities. This adoption did not have a material effect on our consolidated financial statements.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Financial Instruments: On June 30, 2009, we adopted new standards that require disclosures about the fair value of financial instruments for interim and annual reporting periods. These new standards do not require disclosures for earlier periods presented for comparative purposes at initial adoption. This adoption did not have a material effect on our consolidated financial statements, but did expand the disclosures presented. Refer to Financial Note 15, "Financial Instruments and Hedging Activities," for further discussion.

Subsequent Events: On June 30, 2009, we adopted new standards that establish general guidance for accounting and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The adoption of these standards require us to evaluate all subsequent events that occur after the balance sheet date through the date and time our financial statements are issued. This adoption did not have a material effect on our consolidated financial statements.

In February 2010, the FASB amended these standards to remove the requirement for an SEC filer to disclose a date in both issued and revised financial statements. The amended standards clarified the definition of "revised" as being the result of either correction of an error or retrospective application of GAAP. We adopted these amended standards upon their issuance; they did not have a material effect on our consolidated financial statements.

Equity: On January 1, 2010, we adopted amended standards to clarify the treatment of certain distributions to shareholders that have both stock and cash components. The stock portion of such distributions is considered a share issuance that is reflected in earnings per share prospectively and is not a stock dividend. This adoption did not have a material affect on our consolidated financial statements; however, they may affect any future stock distributions.

Compensation: On March 31, 2010, we adopted new standards on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. Refer to Financial Note 13, "Pension Benefits," for the additional disclosure.

Newly Issued Accounting Pronouncements

Revenue Recognition: In October 2009, the FASB issued new standards for multiple-deliverable revenue arrangements. These new standards affect the determination of when individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting. In addition, these new standards modify the manner in which the transaction consideration is allocated across separately identified deliverables, eliminate the use of the residual value method of allocating arrangement consideration and require expanded disclosure. These new standards will become effective for us for multiple-element arrangements entered into or materially modified on or after April 1, 2011. Earlier application is permitted with required transition disclosures based on the period of adoption. We are currently evaluating the application date and the effect of these standards on our consolidated financial statements.

In April 2010, the FASB issued new standards for vendors, who apply the milestone method of revenue recognition to research and development arrangements. These new standards apply to arrangements with payments that are contingent, at inception, upon achieving substantively uncertain future events or circumstances. These new standards are effective on a prospective basis for us for milestones achieved on or after April 1, 2011. Earlier application is permitted. We are currently evaluating the application date and the effect of these standards on our consolidated financial statements.

Software: In October 2009, the FASB issued amended standards for the accounting for certain revenue arrangements that include software elements. These new standards amend pre-existing software revenue guidance by removing from its scope tangible products that contain both software and non-software components that function together to deliver the product's functionality. These amended standards will become effective for us for revenue arrangements entered into or materially modified on or after April 1, 2011. Earlier application is permitted with required transition disclosures based on the period of adoption. We are currently evaluating the application date and the effect of these standards on our consolidated financial statements. Both the revenue recognition standards for multiple-element arrangements and these software standards must be adopted in the same period and must use the same transition disclosures.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Accounting for Transfers of Financial Assets: In December 2009, the FASB issued amended standards on accounting for transfers of financial assets, including securitization transactions, in which entities have continued exposure to risks related to transferred financial assets. These amendments also expand the disclosure requirements for such transactions. These amended standards will become effective for us on April 1, 2010. Based on our existing accounts receivable sales facility agreement, we anticipate that accounts receivable transactions from April 1, 2010, forward may, for U.S. GAAP purposes, be accounted for as secured borrowings rather than asset sales.

Consolidations: In December 2009, the FASB issued amended standards for consolidation of VIEs primarily related to the determination of the primary beneficiary of the VIE. These amended standards will become effective for us on April 1, 2010. Based on our existing relationships with VIEs, we do not anticipate that these amended standards will have a material affect on our consolidated financial statements upon adoption. However, these amended standards may have an effect on accounting for any changes to the existing relationships or future investments.

2. Business Combinations and Investments

In 2009, we made the following acquisition:

On May 21, 2008, we acquired McQueary Brothers Drug Company (“McQueary Brothers”) of Springfield, Missouri for approximately \$190 million. McQueary Brothers is a regional distributor of pharmaceutical, health and beauty products to independent and regional chain pharmacies in the Midwestern U.S. This acquisition expanded our existing U.S. pharmaceutical distribution business. The acquisition was funded with cash on hand. Financial results for McQueary Brothers have been included within our Distribution Solutions segment since the date of acquisition.

The following table summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date:

(In millions)

Accounts receivable	\$	37
Inventory		41
Goodwill		126
Intangible assets		67
Other assets		11
Accounts payable and other liabilities		(60)
Deferred tax liability		(32)
Net assets acquired, less cash and cash equivalents	\$	190

During the first quarter of 2010, the acquisition accounting was completed. Approximately \$126 million of the purchase price allocation has been assigned to goodwill, which primarily reflects the expected future benefits from synergies to be realized upon integrating the business. Included in the purchase price allocation are acquired identifiable intangibles of \$61 million representing a customer relationship with a useful life of 7 years, a trade name of \$2 million with a useful life of less than one year and a not-to-compete agreement of \$4 million with a useful life of 4 years.

In 2008, we made the following acquisition:

On October 29, 2007, we acquired all of the outstanding shares of Oncology Therapeutics Network (“OTN”) of San Francisco, California for approximately \$519 million, including the assumption of debt and net of \$31 million of cash and cash equivalents acquired from OTN. During the third quarter of 2009, the acquisition accounting was completed. OTN is a U.S. distributor of specialty pharmaceuticals. The acquisition of OTN expanded our existing specialty pharmaceutical distribution business. The acquisition was funded with cash on hand. Financial results for OTN have been included within our Distribution Solutions segment since the date of acquisition.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

The following table summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date:

(In millions)

Accounts receivable	\$	308
Inventory		87
Goodwill		240
Intangible assets		128
Deferred tax assets		62
Other assets		36
Accounts payable and other liabilities		(342)
Net assets acquired, less cash and cash equivalents	\$	519

Approximately \$240 million of the purchase price allocation has been assigned to goodwill, which primarily reflects the expected future benefits from synergies upon integrating the business. Included in the purchase price allocation are acquired identifiable intangibles of \$115 million representing customer relationships with a weighted-average life of 9 years, developed technology of \$3 million with a weighted-average life of 4 years and trademarks and trade names of \$10 million with a weighted-average life of 5 years.

During the last three years, we also completed a number of other smaller acquisitions and investments within both of our operating segments. Financial results for our business acquisitions have been included in our consolidated financial statements since their respective acquisition dates. Purchase prices for our business acquisitions have been allocated based on estimated fair values at the date of acquisition and for certain recent acquisitions may be subject to change as we continue to evaluate and implement various restructuring initiatives. Goodwill recognized for our business acquisitions is generally not expected to be deductible for tax purposes. Pro forma results of operations for our business acquisitions have not been presented because the effects were not material to the consolidated financial statements on either an individual or an aggregate basis.

3. Share-Based Compensation

We provide share-based compensation for our employees, officers and non-employee directors, including stock options, an employee stock purchase plan, restricted stock ("RS"), restricted stock units ("RSUs") and performance-based restricted stock units ("PeRSUs") (collectively, "share-based awards.") Most of our share-based awards are granted in the first quarter of each fiscal year.

Compensation expense for the share-based awards is recognized for the portion of the awards that is ultimately expected to vest. We develop an estimate of the number of share-based awards, which will ultimately vest primarily based on historical experience. The estimated forfeiture rate established upon grant is re-assessed throughout the requisite service period. As required, the forfeiture estimates are adjusted to reflect actual forfeitures when an award vests. The actual forfeitures in future reporting periods could be higher or lower than current estimates. The weighted-average forfeiture rate is approximately 7% at March 31, 2010.

The compensation expense recognized has been classified in the consolidated statements of operations or capitalized on the consolidated balance sheets in the same manner as cash compensation paid to our employees. There was no material share-based compensation expense capitalized as part of the cost of an asset in 2010, 2009 and 2008.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Impact on Net Income

The components of share-based compensation expense and the related tax benefit are shown in the following table:

(In millions)	Years Ended March 31,		
	2010	2009	2008
RSUs and RS ⁽¹⁾	\$ 47	\$ 60	\$ 50
PeRSUs ⁽²⁾	39	13	22
Stock options	19	18	11
Employee stock purchase plan	9	8	8
Share-based compensation expense	114	99	91
Tax benefit for share-based compensation expense ⁽³⁾	(41)	(34)	(31)
Share-based compensation expense, net of tax	\$ 73	\$ 65	\$ 60

- (1) This expense was primarily the result of PeRSUs awarded in prior years, which converted to RSUs due to the attainment of goals during the applicable years' performance period.
- (2) Represents estimated compensation expense for PeRSUs that are conditional upon attaining performance objectives during the current year's performance period.
- (3) Income tax expense is computed using the tax rates of applicable tax jurisdictions. Additionally, a portion of pre-tax compensation expense is not tax-deductible.

Stock Plans

The 2005 Stock Plan provides our employees, officers and non-employee directors share-based long-term incentives. The 2005 Stock Plan permits the granting of up to 42.5 million shares in the form of stock options, RS, RSUs, PeRSUs and other share-based awards. As of March 31, 2010, 20 million shares remain available for future grant under the 2005 Stock Plan.

Stock Options

Stock options are granted at no less than fair market value and those options granted under the 2005 Stock Plan generally have a contractual term of seven years and follow a four-year vesting schedule. Prior to 2005, stock options typically had a contractual term of ten years and vested over a four-year period. We expect option grants in 2010 and future years will have the same general contractual term and vesting schedule as those options granted under the 2005 Stock Plan.

Compensation expense for stock options is recognized on a straight-line basis over the requisite service period and is based on the grant-date fair value for the portion of the awards that is ultimately expected to vest. We continue to use the Black-Scholes options-pricing model to estimate the fair value of our stock options. Once the fair value of an employee stock option is determined, current accounting practices do not permit it to be changed, even if the estimates used are different from actual. The options-pricing model requires the use of various estimates and assumptions as follows:

- Expected stock price volatility is based on a combination of historical volatility of our common stock and implied market volatility. We believe that this market-based input provides a better estimate of our future stock price movements and is consistent with employee stock option valuation considerations.
- Expected dividend yield is based on historical experience and investors' current expectations.
- The risk-free interest rate for periods within the expected life of the option is based on the constant maturity U.S. Treasury rate in effect at the time of grant.
- Expected life of the options is based primarily on historical employee stock option exercise and other behavior data and reflects the impact of changes in contractual life of current option grants compared to our historical grants.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Weighted-average assumptions used to estimate the fair value of employee stock options were as follows:

	Years Ended March 31,		
	2010	2009	2008
Expected stock price volatility	33%	27%	24%
Expected dividend yield	0.7%	0.6%	0.4%
Risk-free interest rate	2%	3%	5%
Expected life (in years)	5	5	5

The following is a summary of options outstanding at March 31, 2010:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Options Outstanding At Year End (In millions)	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Options Exercisable at Year End (In millions)	Weighted-Average Exercise Price
\$ 27.35 - \$ 41.02	11	3	\$ 35.68	8	\$ 34.53
\$ 41.03 - \$ 54.70	3	3	45.95	3	45.87
\$ 54.71 - \$ 68.37	2	5	59.55	1	60.32
	16	3	41.26	12	38.85

The following table summarizes stock option activity during 2010, 2009 and 2008:

(In millions, except per share data and years)	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ⁽²⁾
Outstanding, March 31, 2007	36	\$ 46.32	4	\$ 601
Granted	1	62.12		
Exercised	(9)	36.43		
Cancelled and forfeited	(2)	69.35		
Outstanding, March 31, 2008	26	48.59	3	298
Granted	1	57.81		
Exercised	(1)	33.49		
Cancelled and forfeited	(7)	78.35		
Outstanding, March 31, 2009	19	39.28	3	33
Granted	2	40.59		
Exercised	(5)	33.34		
Outstanding, March 31, 2010	16	41.26	3	394
Vested and expected to vest ⁽¹⁾	16	40.67	3	393
Exercisable, March 31, 2010	12	38.85	2	325

(1) The number of options expected to vest takes into account an estimate of expected forfeitures.

(2) The aggregate intrinsic value is calculated as the difference between the period-end market price of the Company's common stock and the option exercise price, times the number of "in-the-money" option shares.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The following table provides data related to stock option activity:

<i>(In millions, except per share data and years)</i>	Years Ended March 31,		
	2010	2009	2008
Weighted-average grant date fair value per stock option	\$ 12.56	\$ 16.16	\$ 17.90
Aggregate intrinsic value on exercise	\$ 115	\$ 30	\$ 220
Cash received upon exercise	\$ 165	\$ 49	\$ 309
Tax benefits realized related to exercise	\$ 37	\$ 14	\$ 83
Total fair value of shares vested	\$ 16	\$ 13	\$ 8
Total compensation cost, net of estimated forfeitures, related to unvested stock options not yet recognized, pre-tax	\$ 37	\$ 30	\$ 25
Weighted-average period in years over which stock option compensation cost is expected to be recognized	1	1	1

RS, RSUs and PeRSUs

RS and RSUs, which entitle the holder to receive at the end of a vesting term a specified number of shares of the Company's common stock are accounted for at fair value at the date of grant. The fair value of RS and RSUs under our stock plans is determined by the product of the number of shares that are expected to vest and the grant date market price of the Company's common stock. The Compensation Committee determines the vesting terms at the time of grant. These awards generally vest in four years. We recognize expense for RS and RSUs with a single vest date on a straight-line basis over the requisite service period. We have elected to expense the grant date fair value of RS and RSUs with only graded vesting and service conditions on a straight-line basis over the requisite service period. RS contains certain restrictions on transferability and may not be transferred until such restrictions lapse.

Non-employee directors receive an annual grant of up to 5,000 RSUs, which vest immediately and are expensed upon grant. However, issuance of any underlying shares granted prior to the July 2008 Annual Meeting of Stockholders is deferred until the director is no longer performing services for the Company. For those RSUs granted subsequent to July 2008, the director may choose to receive payment immediately or defer receipt of the underlying shares if they meet director stock ownership guidelines. At March 31, 2010, 94,000 RSUs for our directors are vested, but shares have not been issued.

PeRSUs are RSUs for which the number of RSUs awarded may be conditional upon the attainment of one or more performance objectives over a specified period. PeRSUs are accounted for as variable awards until the performance goals are reached and the grant date is established. The fair value of PeRSUs is determined by the product of the number of shares eligible to be awarded and expected to vest, and the market price of the Company's common stock, commencing at the inception of the requisite service period. During the performance period, the PeRSUs are re-valued using the market price and the performance modifier at the end of a reporting period. At the end of the performance period, if the goals are attained, the awards are granted and classified as RSUs and accounted for on that basis. For PeRSUs granted prior to 2009 with multiple vest dates, we recognize the fair value expense of these awards on a graded vesting basis over the requisite service period of four years. PeRSUs granted during 2009 and after and the related RSUs (when they are granted) have a single vest date and accordingly, we recognize expense on a straight-line basis over the requisite service period of four years.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The following table summarizes RS and RSU activity during 2010, 2009 and 2008:

<i>(In millions, except per share data)</i>	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested, March 31, 2007	2	\$ 45.18
Granted	1	61.92
Nonvested, March 31, 2008	3	54.13
Granted	1	57.38
Vested	(1)	57.61
Nonvested, March 31, 2009	3	54.70
Granted	2	40.94
Vested	(1)	50.42
Nonvested, March 31, 2010	4	49.21

The following table provides data related to RS and RSU activity:

<i>(Dollars in millions)</i>	Years Ended March 31,		
	2010	2009	2008
Total fair value of shares vested	\$ 74	\$ 101	\$ 20
Total compensation cost, net of estimated forfeitures, related to nonvested RSU awards not yet recognized, pre-tax	\$ 61	\$ 52	\$ 49
Weighted-average period in years over which RSU cost is expected to be recognized	2	1	1

In May 2009, the Compensation Committee approved 2 million PeRSU target share units representing the base number of awards that could be granted, if goals are attained, and would be granted in the first quarter of 2011 (the “2010 PeRSU”). These target share units are not included in the table above as they have not been granted in the form of RSUs. As of March 31, 2010, the total compensation cost, net of estimated forfeitures, related to nonvested 2010 PeRSUs not yet recognized was approximately \$146 million, pre-tax (based on the period-end market price of the Company’s common stock) and the weighted-average period over which the cost is expected to be recognized is 3 years.

Employee Stock Purchase Plan (“ESPP”)

The Company has an ESPP under which 16 million shares have been authorized for issuance. The ESPP allows eligible employees to purchase shares of our common stock through payroll deductions. The deductions occur over three-month purchase periods and the shares are then purchased at 85% of the market price at the end of each purchase period. Employees are allowed to terminate their participation in the ESPP at any time during the purchase period prior to the purchase of the shares. The 15% discount provided to employees on these shares is included in compensation expense. The shares related to funds outstanding at the end of a quarter are included in the calculation of diluted weighted average shares outstanding. These amounts have not been significant. In 2010, 2009 and 2008, 1 million shares were issued under the ESPP and 3 million shares remain available for issuance at March 31, 2010.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

4. Restructuring Activities and Other Workforce Reduction Charges

The following table summarizes the activity related to our restructuring liabilities for the last three years:

(In millions)	Distribution Solutions		Technology Solutions		Corporate	Total
	Severance	Exit-Related	Severance	Exit-Related	Severance	
Balance, March 31, 2007	\$ 3	\$ 6	\$ 16	\$ 5	\$ —	\$ 30
Expenses	5	—	1	4	2	12
Asset impairments	—	3	—	4	—	7
Total charge	5	3	1	8	2	19
Liabilities related to						
acquisitions	6	1	11	1	—	19
Cash payments	(7)	—	(22)	(4)	—	(33)
Non-cash items	—	(3)	—	(4)	—	(7)
Balance, March 31, 2008	7	7	6	6	2	28
Expenses	4	—	(1)	(1)	(1)	1
Liabilities related to						
acquisitions	3	1	—	—	—	4
Cash payments	(8)	(5)	(4)	(2)	—	(19)
Non-cash items	—	—	—	(1)	—	(1)
Balance, March 31, 2009	6	3	1	2	1	13
Expenses	1	—	1	(1)	1	2
Cash payments	(3)	—	(1)	(1)	(1)	(6)
Balance, March 31, 2010	\$ 4	\$ 3	\$ 1	\$ —	\$ 1	\$ 9

Our restructuring activities are primarily due to the consolidation of business functions and facilities from newly acquired businesses.

Restructuring Activities and Asset Impairment – Expenses

During 2010 and 2009, there were no material restructuring costs incurred.

During 2008, we incurred \$19 million of restructuring expenses, which primarily consisted of:

- \$4 million of severance costs associated with the closure of two facilities within our Distribution Solutions segment,
- \$1 million and \$3 million of severance and asset impairments associated with the integration of OTN within our Distribution Solutions segment, and
- \$5 million of severance and exit-related costs and a \$4 million asset impairment charge for the write-off of capitalized software costs associated with the termination of a software project within our Technology Solutions segment.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***Restructuring Activities – Liabilities Related to Business Combinations*

In connection with our OTN acquisition within our Distribution Solutions segment, to date we recorded a total of \$8 million of employee severance costs and \$5 million of facility exit costs.

As of March 31, 2010, the majority of the restructuring accruals of \$9 million, which primarily consist of employee severance costs and facility exit and contract termination costs, are anticipated to be disbursed through 2011. Accrued restructuring liabilities are included in other accrued and other noncurrent liabilities in the consolidated balance sheets.

The majority of past initiatives were completed during 2010. Based on our current existing initiatives, we expect to complete the majority of these activities by the end of 2011. Expenses associated with these initiatives are not anticipated to be material. Approximately 970 employees, consisting primarily of distribution, general and administrative staffs were planned to be terminated as part of our restructuring plans since 2008, of which 891 employees had been terminated as of March 31, 2010. Restructuring expenses are included in cost of sales and operating expenses in our consolidated statements of operations.

Other Workforce Reduction Charges

In 2010, 2009 and 2008, we recorded \$20 million (\$9 million for our Distribution Solutions segment and \$11 million for our Technology Solutions segment), \$32 million (\$7 million for our Distribution Solutions segment and \$25 million for our Technology Solutions segment) and \$8 million of net charges (for our Technology Solutions segment) associated with various reductions in workforce actions. Other workforce reduction charges also reflected related facility exit costs of \$4 million and \$3 million in 2010 and 2009 for our Technology Solutions segment. Although these actions do not constitute a restructuring plan, as defined under U.S. GAAP, they do represent independent actions taken from time-to-time, as appropriate.

Total restructuring and other workforce reduction charges were recorded within our consolidated statements of operations as follows: \$5 million, \$5 million and \$7 million in cost of sales in 2010, 2009 and 2008 and \$17 million, \$28 million and \$20 million within operating expenses.

5. Other Income, Net

<i>(In millions)</i>	Years Ended March 31,		
	2010	2009	2008
Interest income	\$ 16	\$ 31	\$ 89
Equity in earnings, net	6	7	21
Gain on sale of investment	17	24	—
Impairment of investments	—	(63)	—
Other, net	4	13	11
Total	\$ 43	\$ 12	\$ 121

In October 2009, our Distribution Solutions segment sold its 50% equity interest in McKesson Logistics Solutions L.L.C. (“MLS”), a Canadian logistics company, for a pre-tax gain of \$17 million or \$14 million after-tax.

In July 2008, our Distribution Solutions segment sold its 42% equity interest in Verispan L.L.C. (“Verispan”), a data analytics company, for a pre-tax gain of \$24 million or \$14 million after-tax.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

We evaluate our investments for impairment when events or changes in circumstances indicate that the carrying values of such investments may have experienced an other-than-temporary decline in value. During the fourth quarter of 2009, we determined that the fair value of our interest in Parata Systems, LLC (“Parata”) was lower than its carrying value and that such impairment was other-than-temporary. Fair value was determined using a discounted cash flow analysis based on estimated future results and market capitalization rates. We determined the impairment was other-than-temporary based on our assessment of all relevant factors including deterioration in the investee’s financial condition and weak market conditions. As a result, we recorded a pre-tax impairment of \$58 million (\$55 million after-tax) on this investment, which is recorded within other income, net in the consolidated statements of operations. Our investment in Parata is accounted for under the equity method of accounting within our Distribution Solutions segment.

During the fourth quarter of 2009, we also recorded a pre-tax impairment of \$5 million (\$5 million after-tax) on another equity-held investment within our Distribution Solutions segment.

6. Income Taxes

<i>(In millions)</i>	Years Ended March 31,		
	2010	2009	2008
Income from continuing operations before income taxes			
U.S.	\$ 1,340	\$ 623	\$ 1,059
Foreign	524	441	398
Total income from continuing operations before income taxes	\$ 1,864	\$ 1,064	\$ 1,457

The provision for income taxes related to continuing operations consists of the following:

<i>(In millions)</i>	Years Ended March 31,		
	2010	2009	2008
Current			
Federal	\$ 255	\$ 177	\$ 189
State and local	25	(111)	59
Foreign	44	35	22
Total current	324	101	270
Deferred			
Federal	269	69	178
State and local	13	62	16
Foreign	(5)	9	4
Total deferred	277	140	198
Income tax provision	\$ 601	\$ 241	\$ 468

In 2009, we recorded a total income tax expense of \$241 million, which included an income tax benefit of \$182 million related to the Average Wholesale Price (“AWP”) litigation charge described in more detail in Financial Note 18, “Other Commitments and Contingent Liabilities.” The tax benefit could change in the future depending on the resolution of the pending and expected claims.

In 2009, current income tax expense included \$111 million of net income tax benefits for discrete items of which, \$87 million represents a non-cash benefit. These benefits primarily relate to the recognition of previously unrecognized tax benefits and related accrued interest. The recognition of these discrete items was primarily due to the lapsing of the statutes of limitations.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

In 2008, the U.S. Internal Revenue Service (“IRS”) began its examination of our fiscal years 2003 through 2006. In 2009 and 2010, we received assessments from the Canada Revenue Agency (“CRA”) for a total of \$62 million related to transfer pricing for 2003, 2004 and 2005. We paid the CRA assessments to stop the accrual of interest. We have appealed the assessment for 2003 and have filed a notice of objection for 2004 and 2005. We believe that we have adequately provided for any potential adverse results. In nearly all jurisdictions, the tax years prior to 2003 are no longer subject to examination. We believe that we have made adequate provision for all remaining income tax uncertainties.

In 2008, the IRS completed an examination of our consolidated income tax returns for 2000 to 2002 resulting in a signed Revenue Agent Report (“RAR”), which was subsequently approved by the Joint Committee on Taxation. The IRS and the Company agreed to certain adjustments, primarily related to transfer pricing and income tax credits. As a result of the approved RAR, we recognized approximately \$25 million of net federal and state income tax benefits in 2008.

Significant judgments and estimates are required in determining the consolidated income tax provision. Although our major taxing jurisdictions are the U.S. and Canada, we are subject to income taxes in numerous foreign jurisdictions. Annually, we file a federal consolidated income tax return with the IRS and over 1,200 returns with various state and foreign jurisdictions. Our income tax expense, deferred tax assets and liabilities reflect management’s best assessment of estimated current and future taxes to be paid.

The reconciliation between our effective tax rate on income from continuing operations and statutory tax rate is as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2010	2009	2008
Income tax provision at federal statutory rate	\$ 652	\$ 372	\$ 510
State and local income taxes net of federal tax benefit	25	18	43
Foreign tax rate differential	(144)	(120)	(120)
Unrecognized tax benefits and settlements	53	(21)	31
Tax credits	(8)	(20)	(16)
Other, net	23	12	20
Income tax provision	\$ 601	\$ 241	\$ 468

At March 31, 2010, undistributed earnings of our foreign operations totaling \$2.3 billion were considered to be permanently reinvested. No deferred tax liability has been recognized for the remittance of such earnings to the U.S. since it is our intention to utilize those earnings in the foreign operations as well as to fund certain research and development activities for an indefinite period of time, or to repatriate such earnings when it is tax efficient to do so. The determination of the amount of deferred taxes on these earnings is not practicable because the computation would depend on a number of factors that cannot be known until a decision to repatriate the earnings is made.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Deferred tax balances consisted of the following:

<i>(In millions)</i>	March 31,	
	2010	2009
Assets		
Receivable allowances	\$ 56	\$ 70
Deferred revenue	107	170
Compensation and benefit related accruals	349	274
AWP litigation accrual	56	172
Loss and credit carryforwards	481	529
Other	235	357
Subtotal	1,284	1,572
Less: valuation allowance	(97)	(125)
Total assets	\$ 1,187	\$ 1,447
Liabilities		
Basis difference for inventory valuation and other assets	\$ (1,363)	\$ (1,286)
Basis difference for fixed assets and systems development costs	(210)	(207)
Intangibles	(209)	(238)
Other	(63)	(158)
Total liabilities	(1,845)	(1,889)
Net deferred tax liability	\$ (658)	\$ (442)
Current net deferred tax liability	\$ (975)	\$ (695)
Long-term net deferred tax asset	317	253
Net deferred tax liability	\$ (658)	\$ (442)

We have federal, state and foreign income tax net operating loss carryforwards of \$122 million, \$2.8 billion and \$201 million. The federal and state net operating losses will expire at various dates from 2011 through 2030. Substantially all of our foreign net operating losses have indefinite lives. We believe that it is more likely than not that the benefit from certain federal, state and foreign net operating loss carryforwards may not be realized. In recognition of this risk, we have provided valuation allowances of \$15 million and \$45 million on the deferred tax assets relating to these state and foreign net operating loss carryforwards. We also have federal and state capital loss carryforwards of \$40 million and \$36 million. The federal and state net capital losses will expire at various dates from 2012 through 2015. We believe that it is more likely than not that the benefit from these capital loss carryforwards may not be realized. In recognition of this risk, we have provided valuation allowances of \$14 million and \$2 million.

We also have domestic income tax credit carryforwards of \$222 million which are primarily alternative minimum tax credit carryforwards that have an indefinite life. However, we believe that it is more likely than not that the benefit from certain state tax credits of \$2 million may not be realized. In recognition of this risk, we have provided a valuation allowance of \$2 million. In addition, we have Canadian research and development credit carryforwards of \$14 million. The Canadian research and development credits will expire at various dates from 2018 to 2030.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

The following table summarizes the activity related to our gross unrecognized tax benefits for the last three years:

<i>(In millions)</i>	Years Ended March 31,		
	2010	2009	2008
Unrecognized tax benefits at beginning of period	\$ 526	\$ 496	\$ 465
Additions based on tax positions related to prior years	50	77	—
Reductions based on tax positions related to prior years	(12)	—	—
Additions based on tax positions related to current year	72	61	58
Reductions based on settlements	(16)	(41)	(27)
Reductions based on the lapse of the applicable statutes of limitations	(1)	(67)	—
Unrecognized tax benefits at end of period	\$ 619	\$ 526	\$ 496

Of the total \$619 million in unrecognized tax benefits at March 31, 2010, \$396 million would reduce income tax expense and the effective tax rate if recognized. During the next twelve months, it is reasonably possible that audit resolutions and the expiration of statutes of limitations could potentially reduce our unrecognized tax benefits by up to \$23 million. However, this amount may change because we continue to have ongoing negotiations with various taxing authorities throughout the year.

We continue to report interest and penalties on tax deficiencies as income tax expense. At March 31, 2010, before any tax benefits, our accrued interest on unrecognized tax benefits amounted to \$118 million. We recognized an income tax expense of \$17 million, before any tax effect, related to interest in our consolidated statements of operations during 2010. We have no material amounts accrued for penalties.

7. Discontinued Operations

No charges for discontinued operations were incurred during 2010 and 2009. In 2008, discontinued operations included \$1 million from the Company's Acute Care business, which was sold in 2007.

8. Earnings Per Common Share

Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per common share are computed similar to basic earnings per common share except that it reflects the potential dilution that could occur if dilutive securities or other obligations to issue common stock were exercised or converted into common stock.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The computations for basic and diluted earnings per common share from continuing and discontinued operations are as follows:

<i>(In millions, except per share amounts)</i>	Years Ended March 31,		
	2010	2009	2008
Income from continuing operations	\$ 1,263	\$ 823	\$ 989
Discontinued operations, net	—	—	1
Net income	\$ 1,263	\$ 823	\$ 990
Weighted average common shares outstanding:			
Basic	269	275	291
Effect of dilutive securities:			
Options to purchase common stock	3	3	5
Restricted stock	1	1	2
Diluted	273	279	298
Earnings per common share: ⁽¹⁾			
Basic			
Continuing operations	\$ 4.70	\$ 2.99	\$ 3.40
Discontinued operations, net	—	—	—
Total	\$ 4.70	\$ 2.99	\$ 3.40
Diluted			
Continuing operations	\$ 4.62	\$ 2.95	\$ 3.32
Discontinued operations, net	—	—	—
Total	\$ 4.62	\$ 2.95	\$ 3.32

(1) Certain computations may reflect rounding adjustments.

Approximately 8 million, 5 million and 8 million stock options and restricted stock units were excluded from the computations of diluted net earnings per common share in 2010, 2009 and 2008 as their exercise and grant-date price was higher than the Company's average stock price.

9. Receivables, Net

<i>(In millions)</i>	March 31,	
	2010	2009
Customer accounts	\$ 7,256	\$ 6,902
Other	968	1,033
Total	8,224	7,935
Allowances	(149)	(161)
Net	\$ 8,075	\$ 7,774

The allowances are primarily for estimated uncollectible accounts and sales returns to vendors.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

10. Property, Plant and Equipment, Net

<i>(In millions)</i>	March 31,	
	2010	2009
Land	\$ 50	\$ 50
Building, machinery, equipment and other	1,808	1,673
Total property, plant and equipment	1,858	1,723
Accumulated depreciation	(1,007)	(927)
Property, plant and equipment, net	\$ 851	\$ 796

11. Goodwill and Intangible Assets, Net

Changes in the carrying amount of goodwill were as follows:

<i>(In millions)</i>	Distribution Solutions	Technology Solutions	Total
Balance, March 31, 2008	\$ 1,672	\$ 1,673	\$ 3,345
Goodwill acquired, net of purchase price adjustments	231	35	266
Goodwill written off related to the sale of a business	(24)	—	(24)
Foreign currency translation adjustments and other	(10)	(49)	(59)
Balance, March 31, 2009	\$ 1,869	\$ 1,659	\$ 3,528
Goodwill acquired, net of purchase price adjustments	7	4	11
Acquisition accounting and other adjustments	(26)	—	(26)
Foreign currency translation adjustments	21	34	55
Balance, March 31, 2010	\$ 1,871	\$ 1,697	\$ 3,568

Information regarding intangible assets is as follows:

<i>(In millions)</i>	March 31,	
	2010	2009
Customer lists	\$ 832	\$ 824
Technology	190	187
Trademarks and other	74	70
Gross intangibles	1,096	1,081
Accumulated amortization	(545)	(420)
Intangible assets, net	\$ 551	\$ 661

Amortization expense of intangible assets was \$121 million, \$128 million and \$107 million for 2010, 2009 and 2008. The weighted average remaining amortization periods for customer lists, technology, trademarks and other intangible assets at March 31, 2010 were: 7 years, 2 years and 6 years. Estimated annual amortization expense of these assets is as follows: \$112 million, \$106 million, \$88 million, \$76 million and \$59 million for 2011 through 2015, and \$110 million thereafter. All intangible assets were subject to amortization as of March 31, 2010 and 2009.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

12. Long-Term Debt and Other Financing

<i>(In millions)</i>	March 31,	
	2010	2009
9.13% Series C Senior Notes due February, 2010	\$ —	\$ 215
7.75% Notes due February, 2012	399	399
5.25% Notes due March, 2013	499	499
6.50% Notes due February, 2014	350	350
5.70% Notes due March, 2017	499	499
7.50% Notes due February, 2019	349	349
7.65% Debentures due March, 2027	175	175
ESOP related debt (see Financial Note 13)	—	1
Other	25	22
Total debt	2,296	2,509
Less current portion	(3)	(219)
Total long-term debt	\$ 2,293	\$ 2,290

Long-Term Debt

On February 12, 2009, the Company issued 6.50% notes due February 15, 2014 (the “2014 Notes”) in an aggregate principal amount of \$350 million and 7.50% notes due February 15, 2019 (the “2019 Notes”) in an aggregate principal amount of \$350 million. Interest is payable on February 15 and August 15 of each year beginning on August 15, 2009. The 2014 Notes will mature on February 15, 2014 and the 2019 Notes will mature on February 15, 2019. The Company utilized net proceeds, after discounts and offering expenses, of \$693 million from the issuance of the 2014 Notes and 2019 Notes for general corporate purposes.

On March 5, 2007, we issued 5.25% notes due March 1, 2013 (the “2013 Notes”) in an aggregate principal amount of \$500 million and 5.70% notes due March 1, 2017 (the “2017 Notes,” collectively with the 2013 Notes, 2014 Notes, 2019 Notes, the “Notes” and each note constitutes a “Series”) in an aggregate principal amount of \$500 million for which interest is payable on March 1 and September 1 of each year. The 2013 Notes will mature on March 1, 2013 and the 2017 Notes will mature on March 1, 2017. We utilized net proceeds, after discounts and offering expenses, of \$990 million from the issuance of the 2013 Notes and 2017 Notes, together with cash on hand, to repay outstanding interim indebtedness related to our January 2007 acquisition of Per-Se.

Each Series constitutes an unsecured and unsubordinated obligation of the Company and ranks equally with all of the Company’s existing and future unsecured and unsubordinated indebtedness outstanding from time-to-time. Each Series is governed by an indenture common to all Notes and an officers’ certificate specifying certain terms of each Series.

Upon 30 days notice to holders of a Series, we may redeem that Series at any time prior to maturity, in whole or in part, for cash at redemption prices that include accrued and unpaid interest and a make-whole premium, as specified in the indenture and officers’ certificate relating to that Series. In the event of the occurrence of both (1) a change of control of the Company and (2) a downgrade of a Series below an investment grade rating by each of Fitch Ratings, Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services within a specified period, an offer will be made to purchase that Series from the holders at a price in cash equal to 101% of the then outstanding principal amount of that Series, plus accrued and unpaid interest to, but not including, the date of repurchase. The indenture and the related officers’ certificate for each Series, subject to the exceptions and in compliance with the conditions as applicable, specify that we may not incur liens, enter into sale and leaseback transactions or consolidate, merge or sell all or substantially all of our assets. The indentures also contain customary events and default provisions.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

In March 2010, we repaid our \$215 million 9.13% Series C Senior Notes which had matured.

Accounts Receivable Sales Facility

In May 2009, we renewed our accounts receivable sales facility for an additional one year period under terms similar to those previously in place. The renewed facility will expire in mid-May 2010. Based on our existing accounts receivable sales facility agreement, we anticipate that activity under this facility may, for U.S. GAAP purposes, be considered as a secured borrowing rather than a sale under accounting standards that will become effective for us on April 1, 2010. We anticipate renewing this facility before its expiration. The aggregate commitment of the purchasers under this facility is \$1.1 billion, although from time-to-time, the available amount may be less than that amount based on concentration limits and receivable eligibility requirements.

Information regarding our outstanding balances related to our interests in accounts receivable sold or qualifying receivables retained is as follows:

<i>(In millions)</i>	March 31,	
	2010	2009
Receivables sold outstanding	\$ —	\$ —
Receivables retained, net of allowance for doubtful accounts	4,887	4,814

The following table summarizes the activity related to our interests in accounts receivable sold:

<i>(In millions)</i>	Years Ended March 31,		
	2010	2009	2008
Proceeds from accounts receivable sales	\$ —	\$ 5,780	\$ 1,075
Fees and charges ⁽¹⁾	11	10	2

(1) Recorded in operating expenses in the consolidated statements of operations.

The delinquency ratio for the qualifying receivables represented less than 1% of the total qualifying receivables as of March 31, 2010 and March 31, 2009.

Revolving Credit Facility

We have a syndicated \$1.3 billion five-year senior unsecured revolving credit facility, which expires in June 2012. Borrowings under this credit facility bear interest based upon either a Prime rate or the London Interbank Offering Rate. There were no borrowings under this facility in 2010 and \$279 million for 2009. As of March 31, 2010 and 2009, there were no amounts outstanding under this facility.

Commercial Paper

We issued and repaid commercial paper of nil and approximately \$3.3 billion and \$260 million in 2010, 2009 and 2008. There were no commercial paper issuances outstanding at March 31, 2010 and 2009.

Debt Covenants

Our various borrowing facilities and long-term debt are subject to certain covenants. Our principal debt covenant is our debt to capital ratio under our unsecured revolving credit facility, which cannot exceed 56.5%. If we exceed this ratio, repayment of debt outstanding under the revolving credit facility could be accelerated. As of March 31, 2010, this ratio was 23.4% and we were in compliance with our other financial covenants.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

13. Pension Benefits

We maintain a number of qualified and nonqualified defined pension benefit plans and defined contribution plans for eligible employees.

Defined Pension Benefit Plans

Eligible U.S. employees who were employed by the Company prior to December 31, 1996 are covered under the Company-sponsored defined benefit retirement plan. In 1997, we amended this plan to freeze all plan benefits based on each employee's plan compensation and creditable service accrued to that date. The Company has made no annual contributions since this plan was frozen. The benefits for this defined benefit retirement plan are based primarily on age of employees at date of retirement, years of service and employees' pay during the five years prior to retirement. We also have defined benefit pension plans for eligible Canadian and United Kingdom employees as well as an unfunded nonqualified supplemental defined benefit plan for certain U.S. executives. We also assumed a frozen qualified defined benefit plan through our acquisition of Per-Se Technologies, Inc. ("Per-Se") in 2007. The Per-Se plan was merged into our retirement plan in 2008. We adopted the measurement provisions of new accounting standards for benefit provisions in the fourth quarter of 2009. As required, our defined benefit plan assets and obligations are now measured as of the Company's fiscal year-end. We previously performed this measurement at December 31.

The net periodic expense for our pension plans is as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2010	2009	2008
Service cost—benefits earned during the year	\$ 4	\$ 6	\$ 7
Interest cost on projected benefit obligation	35	33	31
Expected return on assets	(24)	(39)	(39)
Amortization of unrecognized actuarial loss, prior service costs and net transitional obligation	25	10	11
Settlement charges and other	—	1	4
Net periodic pension expense	\$ 40	\$ 11	\$ 14

The projected unit credit method is utilized in measuring net periodic pension expense over the employees' service life for the U.S. pension plans. Unrecognized actuarial losses exceeding 10% of the greater of the projected benefit obligation or the market value of assets are amortized straight-line over the average remaining future service periods.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Information regarding the changes in benefit obligations and plan assets for our pension plans is as follows:

<i>(In millions)</i>	Year Ended March 31, 2010	15 Month Period Ended March 31, 2009
Change in benefit obligations		
Benefit obligation at beginning of period	\$ 456	\$ 543
Measurement date adjustment – adoption of new standards	—	(3)
Service cost	4	6
Interest cost	35	33
Actuarial loss (gain)	132	(65)
Benefit payments	(38)	(32)
Foreign exchange impact and other	4	(26)
Benefit obligation at end of period ⁽¹⁾	<u>\$ 593</u>	<u>\$ 456</u>
Change in plan assets		
Fair value of plan assets at beginning of period	\$ 309	\$ 501
Measurement date adjustment – adoption of new standards	—	(9)
Actual return (loss) on plan assets	97	(138)
Employer and participant contributions	18	15
Benefits paid	(38)	(32)
Foreign exchange impact and other	5	(28)
Fair value of plan assets at end of period	<u>\$ 391</u>	<u>\$ 309</u>
Funded status at end of period ⁽²⁾	\$ (202)	\$ (147)
Amounts recognized on the balance sheet		
Noncurrent assets	\$ —	\$ 5
Current liabilities	(4)	(10)
Noncurrent liabilities	(198)	(142)
Total	<u>\$ (202)</u>	<u>\$ (147)</u>

(1) The benefit obligation is the projected benefit obligation.

(2) The unfunded status of our plans at March 31, 2010 and 2009 was primarily due to the decrease in the fair value of our plan assets as a result of the volatility in the financial markets. The 2010 funded status also reflects the unfavorable effect from the reduction in discount rates.

The accumulated benefit obligations for our pension plans were \$574 million at March 31, 2010 and \$441 million at March 31, 2009. The following table provides the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for all our pension plans with an accumulated benefit obligation in excess of plan assets.

<i>(In millions)</i>	March 31,	
	2010	2009
Projected benefit obligation	\$ 503	\$ 403
Accumulated benefit obligation	499	395
Fair value of plan assets	307	251

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Amounts recognized in accumulated other comprehensive loss consist of:

<i>(In millions)</i>	March 31,	
	2010	2009
Net actuarial loss	\$ 253	\$ 215
Prior service cost	4	8
Net transition obligation	1	1
Total	\$ 258	\$ 224

Other changes in plan assets and benefit obligations recognized in other comprehensive loss (income) during the reporting periods were as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2010	2009	2008
Net actuarial loss (gain)	\$ 59	\$ 121	\$ (2)
Prior service credit	(2)		
Amortization of:			
Net actuarial loss	(23)	(10)	(5)
Prior service cost	(2)	(2)	(2)
Total recognized in net periodic benefit cost and other comprehensive loss (income)	\$ 32	\$ 109	\$ (9)

We expect to amortize \$1 million of prior service cost and \$26 million of actuarial loss for the pension plans from stockholders' equity to pension expense in 2011. Comparable 2010 amounts were \$2 million and \$23 million.

Projected benefit obligations relating to our unfunded U.S. plans were \$137 million and \$110 million at March 31, 2010 and 2009. Pension obligations are funded based on the recommendations of independent actuaries.

Expected benefit payments for our pension plans are as follows: \$31 million, \$36 million, \$39 million, \$31 million and \$126 million for 2011 to 2015 and \$188 million for 2016 through 2020. Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service. Expected contributions to be made for our pension plans are \$7 million for 2011.

Weighted-average assumptions used to estimate the net periodic pension expense and the actuarial present value of benefit obligations were as follows:

	2010	2009	2008
Net periodic pension expense			
Discount rates	7.68%	5.34%	5.33%
Rate of increase in compensation	3.62	3.93	3.85
Expected long-term rate of return on plan assets	7.90	7.75	7.53
Benefit obligation			
Discount rates	5.33%	7.74%	6.18%
Rate of increase in compensation	3.75	3.93	4.01

Our U.S. defined benefit pension plan liabilities are valued using a discount rate based on a yield curve developed from a portfolio of high quality corporate bonds rated AA or better whose maturities are aligned with the expected benefit payments of our plans. For March 31, 2010, we used a weighted average discount rate of 5.29%, which represents a decrease of 266 basis points from our 2009 weighted-average discount rate of 7.95%.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Sensitivity to changes in the weighted-average discount rate for our U. S. pension plans is as follows:

<i>(In millions)</i>	One Percentage Point Increase	One Percentage Point Decrease
Increase (decrease) on projected benefit obligation	\$ (37)	\$ 44
Increase (decrease) on net periodic pension cost	(3)	3

Plan Assets

Investment Strategy: The overall objective for McKesson's pension plan assets is to generate long-term investment returns consistent with capital preservation and prudent investment practices, with a diversification of asset types and investment strategies. Periodic adjustments are made to provide liquidity for benefit payments and to rebalance plan assets to their target allocations.

The target allocations for plan assets are 59% equity securities, 33% fixed income securities and 8% to all other types of investments including cash and cash equivalents. Equity securities include primarily exchange-traded common stock and preferred stock of companies from diversified industries. Fixed income securities include corporate bonds of companies from diversified industries, government securities, mortgage-backed securities, asset-backed securities and other. Other types of investments include investments in real estate and venture capital funds, hedge funds and cash and cash equivalents. Portions of the equity, fixed income and cash and cash-equivalent investments are held in commingled funds.

We develop our expected long-term rate of return assumption based on the historical experience of our portfolio and review of projected performance by asset class of broad, publicly traded equity and fixed-income indices. Our target asset allocation was determined based on the risk tolerance characteristics of the plans and at times may be adjusted to achieve our overall investment objectives.

Fair Value Measurements: The following table represents our pension plan assets as of March 31, 2010, using the fair value hierarchy by asset class. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on unadjusted quoted prices in active markets for identical assets. Level 2 refers to fair values estimated using significant other observable inputs and Level 3 includes fair values estimated using significant non-observable inputs.

<i>(In millions)</i>	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 10	\$ 17	\$ —	\$ 27
Equity securities:				
Common and preferred stock	104	1	—	105
Equity commingled funds	—	126	—	126
Fixed income securities:				
Government securities	—	23	—	23
Corporate bonds	—	41	—	41
Mortgage-backed securities	—	17	1	18
Asset-backed securities and other	—	15	1	16
Fixed income commingled funds	—	22	—	22
Other:				
Real estate and venture capital funds	—	—	19	19
Hedge funds	—	—	5	5
Total	\$ 114	\$ 262	\$ 26	\$ 402
Receivables ⁽¹⁾				6
Payables ⁽¹⁾				(17)
Total				\$ 391

(1) Represents pending trades at March 31, 2010.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Cash and cash equivalents – Cash and cash equivalents consist of a short-term investment fund that maintains daily liquidity and has a constant unit value of \$1.00. The fund also invests in short-term domestic fixed income securities and other securities with debt-like characteristics emphasizing short-term maturities and quality. Cash and cash equivalents are generally classified as Level 1 investments. Some cash and cash equivalents are held in commingled funds, which have a daily net value derived from quoted prices for the underlying securities in active markets; these are classified as Level 2 investments.

Common and preferred stock – This investment class consists of common and preferred shares issued by U.S. and non-U.S. corporations. Common shares are traded actively on exchanges and price quotes are readily available. Preferred shares are not actively traded. Holdings of common shares are generally classified as Level 1 investments. Preferred shares are classified as Level 2 investments.

Equity commingled funds – Some equity securities consisting of common and preferred stock are held in commingled funds, which have daily net asset values derived from quoted prices for the underlying securities in active markets; these are classified as Level 2 investments.

Government securities – This investment class consists of bonds and debentures issued by central governments or federal agencies. Multiple prices and price types are obtained from pricing vendors whenever possible, which enables cross-provider validations. We have obtained an understanding of how these prices are derived, including the nature and observability of the inputs used in deriving such prices. These securities are classified as Level 2 investments.

Corporate bonds – This investment class consists of bonds and debentures issued by corporations. Multiple prices and price types are obtained from pricing vendors whenever possible, which enables cross-provider validations. We have obtained an understanding of how these prices are derived, including the nature and observability of the inputs used in deriving such prices. When inputs are observable, securities are classified as Level 2 investments; otherwise, securities are classified as Level 3 investments.

Mortgage-backed securities – This investment class consists of debt obligations secured by a mortgage or collection of mortgages. Multiple prices and price types are obtained from pricing vendors whenever possible, which enables cross-provider validations. We have obtained an understanding of how these prices are derived, including the nature and observability of the inputs used in deriving such prices. When inputs are observable, securities are classified as Level 2 investments; otherwise, securities are classified as Level 3 investments.

Asset-backed securities and other – This investment class consists of debt obligations secured by an asset or collection of assets. Multiple prices and price types are obtained from pricing vendors whenever possible, which enables cross-provider validations. We have obtained an understanding of how these prices are derived, including the nature and observability of the inputs used in deriving such prices. When inputs are observable, securities are classified as Level 2 investments; otherwise, securities are classified as Level 3 investments.

Fixed income commingled funds – Some of the fixed income securities are held in commingled funds, which have daily net asset values derived from the underlying securities; these are classified as Level 2 investments.

Real estate and venture capital funds – The value of the real estate funds is reported by the fund manager and is based on a valuation of the underlying properties. Inputs used in the valuation include items such as cost, discounted future cash flows, independent appraisals and market based comparable data. The real estate funds are classified as Level 3 investments. The real estate fund is in the process of redemption. However, redemptions are restricted by the fund's liquidity. The plans also have an interest in venture capital funds structured as limited partnerships that invest in privately-held companies. Due to the private nature of the partnership investments, pricing inputs are not readily observable. Asset valuations are developed by the general partners that manage the partnerships. These valuations are based on proprietary appraisals, application of public market multiples to private company cash flows, utilization of market transactions that provide valuation information for comparable companies and other methods. Holdings of limited partnerships pertaining to venture capital investments are classified as Level 3.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Hedge funds – The hedge funds are invested in fund-of-fund structures and consist of multiple investments in interest and currency funds designed to hedge the risk of rate fluctuations. Given the complex nature of valuation and the broad spectrums of investments, the hedge funds are classified as Level 3 investments.

The following table represents a reconciliation of Level 3 plan assets held during the year ended March 31, 2010:

(In millions)	Real Estate and Venture			Total
	Capital Funds	Hedge Funds	Other	
Balance at March 31, 2009	\$ 25	\$ 5	\$ 2	\$ 32
Unrealized (loss) on plan assets still held	(6)	—	—	(6)
Balance at March 31, 2010	\$ 19	\$ 5	\$ 2	\$ 26

Concentration of Credit Risk: We evaluated our pension plans' asset portfolios for the existence of significant concentrations of credit risk as of March 31, 2010. Types of concentrations that were evaluated include investment funds that represented 10% or more of the pension plans' net assets. As of March 31, 2010, 10% of our plan assets is comprised of Bartram International Fund, which holds only actively traded stock.

Other Defined Benefit Plans

Under various U.S. bargaining unit labor contracts, we make payments into multi-employer pension plans established for union employees. We are liable for a proportionate part of the plans' unfunded vested benefit upon our withdrawal from the plan; however, information regarding the relative position of each employer with respect to the actuarial present value of accumulated benefits and net assets available for benefits is not available. Contributions to the plans and amounts accrued were not material for the years ended March 31, 2010, 2009 and 2008.

Defined Contribution Plans

We have a contributory profit sharing investment plan ("PSIP") for U.S. employees not covered by collective bargaining arrangements. Eligible employees may contribute to the PSIP up to 20% of their monthly eligible compensation for pre-tax contributions and up to 67% of compensation for catch-up contributions not to exceed IRS limits. The Company makes matching contributions in an amount equal to 100% of the employee's first 3% of pay contributed and 50% for the next 2% of pay contributed. The Company also may make an additional annual matching contribution for each plan year to enable participants to receive a full match based on their annual limit, effective 2008. Prior to 2009, the Company provided for the PSIP contributions primarily with its common shares through its leveraged employee stock ownership plan ("ESOP").

The ESOP had purchased an aggregate of 24 million shares of the Company's common stock since its inception. These purchases were financed by 10 to 20 year loans from or guaranteed by us. At March 31, 2009, the ESOP's outstanding borrowing was reported as short-term debt of the Company and the related receivables from the ESOP were shown as a reduction of stockholders' equity. At March 31, 2010, there were no outstanding ESOP loans nor the related receivables from the ESOP as the ESOP fully repaid the loans during 2010. The loans were repaid by the ESOP from interest earnings on cash balances and common dividends on unallocated shares and Company cash contributions. The ESOP loan maturities and rates were identical to the terms of related Company borrowings. Stock was made available from the ESOP based on debt service payments on ESOP borrowings. ESOP expense and other contribution expense, including interest expense on ESOP debt, was \$1 million, \$53 million and \$13 million in 2010, 2009 and 2008. ESOP expense for 2010 was negligible, as we did not make additional contributions to the PSIP or ESOP, as discussed in the paragraph below. ESOP expense for 2008 was significantly lower than 2009 due to the utilization of lower cost basis shares in the ESOP to fund the Company's matching contributions. Approximately 1 million shares of common stock were allocated to plan participants in 2008. In 2009, the Company made contributions primarily in cash or with the issuance of treasury shares. At March 31, 2010, substantially all of the 24 million common shares had been allocated to plan participants. As a result, we will need to fund most of our future PSIP contributions with cash or treasury shares.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

The McKesson Corporation PSIP is a member of the settlement class in the Consolidated Securities Litigation Action. On April 27, 2009, the court issued an order approving the distribution of the settlement funds. On October 9, 2009, the PSIP received approximately \$119 million of the Consolidated Securities Litigation Action proceeds. Approximately \$42 million of the proceeds were attributable to the allocated shares of McKesson common stock owned by the PSIP participants during the Consolidated Securities Litigation Action class-holding period and were allocated to the respective participants on that basis in the third quarter of 2010. Approximately \$77 million of the proceeds were attributable to the unallocated shares (the “Unallocated Proceeds”) of McKesson common stock owned by the PSIP in an ESOP suspense account. In accordance with the plan terms, the PSIP distributed all of the Unallocated Proceeds to current PSIP participants after the close of the plan year in April 2010. The receipt of the Unallocated Proceeds by the PSIP was reimbursement for the loss in value of the Company’s common stock held by the PSIP in its ESOP suspense account during the Consolidated Securities Litigation Action class-holding period and was not a contribution made by the Company to the PSIP or ESOP. Accordingly, there were no accounting consequences to the Company’s financial statements relating to the receipt of the Unallocated Proceeds by the PSIP.

PSIP expense by segment for the last three years was as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2010	2009	2008
Distribution Solutions	\$ —	\$ 23	\$ 5
Technology Solutions	1	28	7
Corporate	—	2	1
PSIP expense	<u>\$ 1</u>	<u>\$ 53</u>	<u>\$ 13</u>
Cost of sales ⁽¹⁾	\$ —	\$ 12	\$ 3
Operating expenses	1	41	10
PSIP expense	<u>\$ 1</u>	<u>\$ 53</u>	<u>\$ 13</u>

(1) Amounts recorded to cost of sales pertain solely to our McKesson Technology Solutions segment.

14. Postretirement Benefits

We maintain a number of postretirement benefits, primarily consisting of healthcare and life insurance (“welfare”) benefits, for certain eligible U.S. employees. Eligible employees consist of those who retired before March 31, 1999 and those who retired after March 31, 1999, but were an active employee as of that date, after meeting other age-related criteria. We also provide postretirement benefits for certain U.S. executives. We adopted the measurement provisions of new accounting standards for postretirement plans in the fourth quarter of 2009. As required, our defined benefit plan obligations are now measured as of the Company’s fiscal year-end. We previously performed this measurement at December 31.

The net periodic expense (income) for our postretirement welfare benefits is as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2010	2009	2008
Service cost—benefits earned during the year	\$ 1	\$ 1	\$ 2
Interest cost on projected benefit obligation	9	10	10
Amortization of unrecognized actuarial loss (gain) and prior service costs	(25)	(14)	4
Net periodic postretirement expense (income)	<u>\$ (15)</u>	<u>\$ (3)</u>	<u>\$ 16</u>

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Information regarding the changes in benefit obligations for our postretirement welfare plans is as follows:

<i>(In millions)</i>	Year Ended March 31, 2010	15 Month Period Ended March 31, 2009
Change in benefit obligations		
Benefit obligation at beginning of period	\$ 133	\$ 157
Measurement date adjustment – adoption of new standards	—	3
Service cost	1	1
Interest cost	9	10
Plan amendments and other	—	6
Actuarial loss (gain)	26	(30)
Benefit payments	(15)	(14)
Benefit obligation at end of period	\$ 154	\$ 133

The components of the amount recognized in accumulated other comprehensive income for the Company's other postretirement plans at March 31, 2010 and 2009 were net actuarial gain of \$1 million and \$52 million and net prior service credit of \$2 million and \$2 million. Other changes in benefit obligations recognized in other comprehensive income were net actuarial loss of \$51 million for 2010 and net actuarial gain of \$12 million and \$33 million for 2009 and 2008.

We estimate that the amortization of the actuarial gain from stockholders' equity to other postretirement expense in 2011 will be \$10 million (\$25 million in 2010). The decrease in the gain is due to completion of amortization of the 2007 actuarial gain in 2010 and a decrease in the discount rate in 2011.

Other postretirement benefits are funded as claims are paid. Expected benefit payments for our postretirement welfare benefit plans, net of expected Medicare subsidy receipts of \$2 million annually, are as follows: \$14 million annually for 2011 to 2015 and \$63 million cumulatively for 2016 through 2020. Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service. Expected contributions to be made for our postretirement welfare benefit plans are \$15 million for 2011.

Weighted-average discount rates used to estimate postretirement welfare benefit expenses were 7.86%, 6.19% and 5.78% for 2010, 2009 and 2008. Weighted-average discount rates for the actuarial present value of benefit obligations were 5.33%, 7.86% and 6.19% for 2010, 2009 and 2008.

Actuarial gain or loss for the postretirement welfare benefit plan is amortized to income or expense over a three-year period. The assumed healthcare cost trends used in measuring the accumulated postretirement benefit obligation were 8.5% and 9% for prescription drugs, 7.5% and 7% for medical and 6% for dental in 2010 and 2009. The healthcare cost trend rate assumption has a significant effect on the amounts reported. For 2010, 2009 and 2008, a one-percentage-point increase or decrease in the assumed healthcare cost trend rate would impact total service and interest cost components by approximately \$1 million to \$2 million and the postretirement benefit obligation by approximately \$9 million to \$8 million.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)****15. Financial Instruments and Hedging Activities**

At March 31, 2010 and 2009, the carrying amounts of cash and cash equivalents, restricted cash, marketable securities, receivables, drafts and accounts payable and other current liabilities approximated their estimated fair values because of the short maturity of these financial instruments. All highly liquid debt instruments purchased with original maturity of three months or less at the date of acquisition are included in cash and cash equivalents. Included in cash and cash equivalents at March 31, 2010 and 2009, are money market fund investments of \$2.3 billion and \$1.7 billion, which are reported at fair value. The fair value of these investments was determined by using quoted prices for identical investments in active markets, which are considered to be Level 1 inputs under the fair value measurements and disclosures guidance. The carrying value of all other cash equivalents approximates fair value due to their relatively short-term nature.

The carrying amount and estimated fair value of our long-term debt and other financing was \$2.3 billion and \$2.5 billion at March 31, 2010 and \$2.5 billion each at March 31, 2009. The estimated fair value of our long-term debt and other financing was determined using quoted market prices and other inputs that were derived from available market information and may not be representative of actual values that could have been realized or that will be realized in the future.

In the normal course of business, we are exposed to interest rate changes and foreign currency fluctuations. We limit these risks through the use of derivatives such as interest rate swaps and forward foreign exchange contracts. In accordance with our policy, derivatives are only used for hedging purposes. We do not use derivatives for trading or speculative purposes. The volume of activity related to derivative financial instruments was not material for 2010, 2009 and 2008.

16. Lease Obligations

We lease facilities and equipment almost solely under operating leases. At March 31, 2010, future minimum lease payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year for years ending March 31 are:

<i>(In millions)</i>	Noncancellable Operating Leases
2011	\$ 106
2012	85
2013	55
2014	38
2015	29
Thereafter	50
Total minimum lease payments	\$ 363

Rental expense under operating leases was \$154 million, \$146 million and \$149 million in 2010, 2009 and 2008. We recognize rent expense on a straight-line basis over the term of the lease, taking into account, when applicable, lessor incentives for tenant improvements, periods where no rent payment is required and escalations in rent payments over the term of the lease. Deferred rent is recognized for the difference between the rent expense recognized on a straight-line basis and the payments made per the terms of the lease. Remaining terms for facilities leases generally range from one to seven years, while remaining terms for equipment leases range from one to three years. Most real property leases contain renewal options (generally for five-year increments) and provisions requiring us to pay property taxes and operating expenses in excess of base period amounts. Sublease rental income was not material for any period presented.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)****17. Financial Guarantees and Warranties***Financial Guarantees*

We have agreements with certain of our customers' financial institutions under which we have guaranteed the repurchase of inventory (primarily for our Canadian business) at a discount in the event these customers are unable to meet certain obligations to those financial institutions. Among other requirements, these inventories must be in resalable condition. The inventory repurchase agreements mostly range from one to two years. Customer guarantees range from one to five years and were primarily provided to facilitate financing for certain customers. The majority of our other customer guarantees are secured by certain assets of the customer. We also have an agreement with one software customer that, under limited circumstances, may require us to secure standby financing. Because the amount of the standby financing is not explicitly stated, the overall amount of this guarantee cannot reasonably be estimated. At March 31, 2010, the maximum amounts of inventory repurchase guarantees and other customer guarantees were \$124 million and \$17 million, none of which had been accrued.

At March 31, 2010, we had commitments of \$2 million of cash contributions to our equity-held investments, for which no amounts had been accrued and a loan commitment of \$5 million to an equity-held investment, of which \$2 million had been funded and is included under other assets in our consolidated balance sheet.

The expirations of the above noted financial guarantees and commitments are as follows: \$64 million, \$24 million, \$1 million, nil and \$6 million from 2011 through 2015 and \$51 million thereafter.

In addition, at March 31, 2010, our banks and insurance companies have issued \$111 million of standby letters of credit and surety bonds, which were issued on our behalf mostly related to our customer contracts and in order to meet the security requirements for statutory licenses and permits, court and fiduciary obligations and our workers' compensation and automotive liability programs.

Our software license agreements generally include certain provisions for indemnifying customers against liabilities if our software products infringe a third party's intellectual property rights. To date, we have not incurred any material costs as a result of such indemnification agreements and have not accrued any liabilities related to such obligations.

In conjunction with certain transactions, primarily divestitures, we may provide routine indemnification agreements (such as retention of previously existing environmental, tax and employee liabilities) whose terms vary in duration and often are not explicitly defined. Where appropriate, obligations for such indemnifications are recorded as liabilities. Because the amounts of these indemnification obligations often are not explicitly stated, the overall maximum amount of these commitments cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of divestiture, we have historically not made significant payments as a result of these indemnification provisions.

Warranties

In the normal course of business, we provide certain warranties and indemnification protection for our products and services. For example, we provide warranties that the pharmaceutical and medical-surgical products we distribute are in compliance with the Food, Drug and Cosmetic Act and other applicable laws and regulations. We have received the same warranties from our suppliers, which customarily are the manufacturers of the products. In addition, we have indemnity obligations to our customers for these products, which have also been provided to us from our suppliers, either through express agreement or by operation of law.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

We also provide warranties regarding the performance of software and automation products we sell. Our liability under these warranties is to bring the product into compliance with previously agreed upon specifications. For software products, this may result in additional project costs, which are reflected in our estimates used for the percentage-of-completion method of accounting for software installation services within these contracts. In addition, most of our customers who purchase our software and automation products also purchase annual maintenance agreements. Revenues from these maintenance agreements are recognized on a straight-line basis over the contract period and the cost of servicing product warranties is charged to expense when claims become estimable. Accrued warranty costs were not material to the consolidated balance sheets.

18. Other Commitments and Contingent Liabilities

In addition to commitments and obligations in the ordinary course of business, we are subject to various claims, other pending and potential legal actions for damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of our business. We record a provision for a liability when management believes that it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We believe we have made adequate provisions for any such matters. Management reviews these provisions at least quarterly and adjusts these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Because litigation outcomes are inherently unpredictable, these decisions often involve a series of complex assessments by management about future events that can rely heavily on estimates and assumptions and it is possible that the ultimate cost of these matters could impact our earnings, either negatively or positively, in the period of their resolution.

We are party to the significant legal proceedings described below. Based on our experience, we believe that any damage amounts claimed in the specific matters discussed below are not meaningful indicators of our potential liability. We believe that we have valid defenses to these legal proceedings and are defending the matters vigorously. Nevertheless, the outcome of any litigation is inherently uncertain. We are currently unable to estimate the remaining possible losses in these unresolved legal proceedings. Should any one or a combination of more than one of these proceedings be successful, or should we determine to settle any or a combination of these matters, we may be required to pay substantial sums, become subject to the entry of an injunction or be forced to change the manner in which we operate our business, which could have a material adverse impact on our financial position or results of operations.

I. Accounting Litigation

Following the announcements by McKesson in April, May and July of 1999 that McKesson had determined that certain software sales transactions in its Information Solutions segment, formerly HBO & Company, Inc. (“HBOC”) and later known as McKesson Information Solutions LLC, were improperly recorded as revenue and reversed, numerous lawsuits were filed against McKesson, HBOC, certain of McKesson’s and HBOC’s current and former officers or directors, and other defendants. Although almost all of these cases (collectively the “Securities Litigation”) have now been resolved, certain matters remain pending as more fully described below. On January 12, 2005, we announced that we reached an agreement to settle the previously-reported action in the Northern District of California captioned: *In re McKesson HBOC, Inc. Securities Litigation*, (No. C-99-20743 RMW) (the “Consolidated Securities Litigation Action”).

The last two Securities Litigation lawsuits pending against the Company are *Holcombe T. Green and HTG Corp. v. McKesson Corporation, et al.* (Georgia State Court, Fulton County, Case No. 06-VS-096767-D) and *Hall Family Investments, L.P. v. McKesson Corporation, et al.* (Georgia State Court, Fulton County, Case No. 06-VS-096763-F). Plaintiffs in those matters allege common law fraud and deceit against the Company and certain of HBOC’s former officers. In addition, plaintiff Green seeks indemnification for attorneys’ fees that he allegedly incurred in connection with a class action lawsuit, now settled, which was filed on behalf of participants in the McKesson Corporation Profit Sharing Investment Plan against the Company and Green, among others. In the fraud and deceit actions, plaintiffs seek actual and punitive damages, attorneys’ fees and costs of suit in amounts unspecified in the complaint.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

The Company and HBOC answered the complaints in each of these actions, generally denying the allegations and any liability to plaintiffs. In April 2007, we and other defendants filed motions for summary judgment in both actions, arguing, in part, that plaintiffs could not as a matter of law prove the “materiality” elements of their fraud and deceit causes of action. On December 13, 2007, the trial judge denied those motions. On January 3, 2008, McKesson appealed those rulings to the Georgia Court of Appeals. On July 14, 2009, the Georgia Court of Appeals issued its opinion, ruling as a matter of law that plaintiffs could not prove the materiality elements of their claims, and further ruling that the trial court committed error in denying the defendants’ motions for summary judgment. On July 23, 2009, plaintiffs petitioned the Georgia Supreme Court to take appeals from the Georgia Court of Appeals decision. On October 19, 2009, the Georgia Supreme Court refused to take those appeals, and on December 15, 2009, the Georgia Supreme Court denied plaintiff’s petition for reconsideration of its October 19, 2009, order. The Georgia Supreme Court remanded both cases to the Georgia Court of Appeals, which in turn remanded them to the trial court with instructions to enter judgment in favor of McKesson and other defendants as provided in the Court of Appeals’ July 14, 2009, decision. The only remaining matters to be decided in these actions, the claim of individual plaintiff Green for indemnity relating to his defense in an unrelated action and fees and costs in both actions, were resolved in a settlement dated April 28, 2010, and a dismissal of these two actions “with prejudice” will be filed in May 2010.

II. Average Wholesale Price Litigation

The following matters involve a drug reimbursement benchmark referred to as the “AWP” utilized by some public and private payors to calculate at least some portion of the amount a pharmacy will be reimbursed for dispensing a covered branded drug.

A. Private Payor AWP Actions

On June 2, 2005, a civil class action complaint was filed against the Company in the United States District Court, District of Massachusetts, *New England Carpenters Health Benefits Fund, et al. v. First DataBank, Inc. and McKesson Corporation* (Civil Action No. 1:05-CV-11148-PBS) (the “Private Payor RICO Action”). Plaintiffs are four health benefit plans. The complaint alleges that in late 2001 and early 2002 the Company and co-defendant First DataBank, Inc. (“FDB”) conspired to improperly raise the published AWP for certain prescription drugs, and that this alleged conduct resulted in higher drug reimbursement payments by plaintiffs and others similarly situated. Plaintiffs purport to represent a class of third party payors and consumers who paid any portion of the price of certain prescription drugs to the extent their portion was based upon the AWP published by FDB during the period January 1, 2002, to March 15, 2005.

The complaint purports to state claims against the Company based on the federal Racketeer Influenced and Corrupt Organizations Act (“RICO,”) 18 U.S.C. § 1962(c); California’s Business and Professions Code §§ 17200 and 17500 and common law civil conspiracy. The complaint also alleges two additional claims against defendant FDB only for violation of California’s Consumers Legal Remedies Act, California Civil Code § 1750 and for common law negligent misrepresentation. Plaintiffs seek injunctive relief, as well as compensatory and treble damages, attorneys’ fees and costs.

On July 21, 2006, the plaintiffs filed a First Amended Complaint (“FAC”), asserting essentially the same claims against the Company and adding an additional named plaintiff. The FAC also included an alternative count under the consumer protection statutes of numerous states if the court determined that California law was not applicable to the entire class. The FAC modified the definition of the alleged class to include third party payors (but not consumers) whose pharmaceutical payments for certain prescription drugs were based upon AWP (not limited to the AWP published by FDB) during the time period August 1, 2001, to March 15, 2005.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

On November 30, 2006, plaintiffs filed a Second Amended Complaint (“SAC”) which added a class of consumers that made percentage co-payments in addition to the third party payor class (“consumer co-pay class”). In addition, the SAC added a claim under California Civil Code § 3345 for treble damages for unfair practices. On November 6, 2007, plaintiffs filed a Third Amended Complaint (“TAC”) largely repeating the allegations of the SAC and adding a new class of uninsured consumers who paid usual and customary (“U&C”) prices for the prescription drugs at issue in the case (“U&C class”). The TAC asserts the same claims asserted in the SAC on behalf of the third party payor class, the consumer co-pay class and the U&C class, with the exception that the claims of the U&C class are alleged to run through the present.

On March 19, 2008, the district court entered an order certifying the consumer co-pay class for all purposes for the period August 1, 2001, to May 15, 2005, certifying the third party payor class for liability and equitable relief for the period from August 1, 2001, to May 15, 2005, and certifying the third party payor class for damages for the period August 1, 2001, to December 31, 2003.

On November 21, 2008, the Company announced that it had reached an agreement with plaintiffs to pay \$350 million in settlement of all claims on behalf of the three private payor classes alleged in the Private Payor RICO Action relating to FDB’s published AWP, along with the claims brought by these same private payors alleged in a previously dismissed antitrust action. The Company also announced on November 21 that it recorded a reserve of \$143 million for pending and expected claims by public payor entities relating to FDB’s published AWP. As a result, in the third quarter of 2009, we recorded a \$493 million pre-tax charge. The private payor settlement provides that the Company will pay \$350 million into a settlement escrow in installments following preliminary and final approvals of the settlement, which escrow account shall be used for settlement administration costs, including notice, attorneys’ fees as approved by the court and distribution to class members in a manner determined by plaintiffs subject to court approval.

On July 24, 2009, the trial court issued an order approving the settlement of these matters. On August 21, 2009, a settlement class member filed a motion challenging the order of approval and also a motion seeking leave to intervene in the case and on November 5, 2009, the trial court denied both of those motions. On August 31, 2009, the trial court entered judgment on the settlement and dismissed all private party claims against the Company. On September 29 and 30, 2009, four appeals to the First Circuit Court of Appeals were filed by settlement class members challenging the final judgment. Between November 30 and December 22, 2009, all four appeals were voluntarily dismissed.

These private payor actions have been concluded, the releases have become final and binding on the classes and the settlement consideration has been paid and is no longer subject to return to the Company. Accordingly, in the third quarter of 2010, the Company removed its AWP litigation liability of \$350 million and corresponding restricted cash balance as all criteria for the extinguishment of this liability were met.

B. The Public Payor AWP Cases

Commencing in May of 2008, a series of complaints alleging claims nearly identical to the Private Payor RICO Action were filed by various public payors — governmental entities that paid any portion of the price of certain prescription drugs. These actions were all filed in the United States District Court for the District of Massachusetts and were ultimately consolidated under the caption “*In re McKesson Governmental Entities Average Wholesale Price Litigation*.” The public payor actions are assigned to the same court assigned to the related claims of private payors. A description of these actions is as follows:

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***The San Francisco Action*

On May 20, 2008, an action was filed by the San Francisco Health Plan on behalf of itself and a purported class of political subdivisions in the State of California and by the San Francisco City Attorney on behalf of the “People of the State of California” in the United States District Court for the District of Massachusetts against the Company as the sole defendant, alleging violations of civil RICO, the California Cartwright Act, California’s false claims act, California Business and Professions Code §§ 17200 and 17500 and seeking damages, treble damages, civil penalties, restitution, interest and attorneys’ fees, all in unspecified amounts, San Francisco Health Plan, et al. v. McKesson Corporation, (Civil Action No. 1:08-CV-10843-PBS) (“San Francisco Action”). On July 3, 2008, an amended complaint was filed in the San Francisco Action adding a claim for tortious interference. On January 13, 2009, a second amended complaint was filed in the San Francisco Action that abandoned all previously alleged antitrust claims.

The Connecticut Action

On May 28, 2008, an action was filed by the State of Connecticut in the United States District Court for the District of Massachusetts against the Company, again as the sole defendant, alleging violations of civil RICO, the Sherman Act and the Connecticut Unfair Trade Practices Act and seeking damages, treble damages, restitution, interest and attorneys’ fees, all in unspecified amounts, State of Connecticut v. McKesson Corporation, (Civil Action No. 1:08-CV-10900-PBS) (“Connecticut Action”). On January 13, 2009, an amended complaint was filed in the Connecticut Action abandoning all previously alleged antitrust claims.

The Douglas County, Kansas Nationwide Class Action

On August 7, 2008, an action was filed in the United States District Court for the District of Massachusetts by the Board of County Commissioners of Douglas County, Kansas on behalf of itself and a purported national class of state, local and territorial governmental entities against the Company and FDB alleging violations of civil RICO and federal antitrust laws and seeking damages and treble damages, as well as injunctive relief, interest, attorneys’ fees and costs of suit, all in unspecified amounts, Board of County Commissioners of Douglas County, Kansas v. McKesson Corporation, et al., (Civil Action No. 1:08-CV-11349-PBS) (“Douglas County, Kansas Action”).

Separate class actions based on essentially the same factual allegations were subsequently filed against the Company and FDB in the United States District Court for the District of Massachusetts by the City of Panama City, Florida on August 18, 2008 (“Florida Action”), the State of Oklahoma on October 15, 2008, (“Oklahoma Action”), the County of Anoka, Minnesota on November 3, 2008, (“Minnesota Action”), Baltimore, Maryland on November 7, 2008, (“Maryland Action”), Columbia, South Carolina on December 12, 2008, (“South Carolina Action”) and Goldsboro, North Carolina on December 15, 2008, (“North Carolina Action”) in each case on behalf of the filing entity and a class of state and local governmental entities within the same state, alleging violations of civil RICO, federal and state antitrust laws and various state consumer protection and deceptive and unfair trade practices statutes and seeking damages and treble damages, civil penalties, as well as injunctive relief, interest, attorneys’ fees and costs of suit, all in unspecified amounts.

On December 24, 2008, an amended and consolidated class action complaint was filed in the Douglas County, Kansas Action. The amended complaint added the named plaintiffs from the Florida, Oklahoma, Minnesota, Maryland, South Carolina and North Carolina Actions and abandoned the previously alleged antitrust claims. On January 9, 2009, the Florida, Oklahoma, Minnesota, Maryland, South Carolina and North Carolina Actions were voluntarily dismissed without prejudice. On March 3, 2009, a second amended and consolidated class action complaint was filed in the Douglas County, Kansas Action, adding the state of Montana as a plaintiff, adding Montana state law claims and adding a claim for tortious interference.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

On February 10, 2009, plaintiffs in the Douglas County, Kansas Action filed a notice of dismissal without prejudice of defendant FDB. On April 2, 2009, the Company filed answers to each of the pending complaints in the San Francisco Action, the Connecticut Action and the County of Douglas, Kansas Action denying the core factual allegations and asserting numerous affirmative defenses. On April 9, 2009, the Company filed a demand for a jury in each of these actions.

On May 20, 2009, an action was filed in the United States District Court for the District of Massachusetts by Oakland County, Michigan and the City of Sterling Heights, Michigan against the Company as the sole defendant, alleging RICO violations, the Michigan Antitrust Reform Act, the Michigan Consumer Protection Act, the California Cartwright Act and common law fraud and seeking damages, treble damages, interest and attorneys' fees, all in unspecified amounts, Oakland County, Michigan et al. v. McKesson Corporation, (Civil Action No. 1:09-CV-10843-PBS) ("Michigan Action"). On August 4, 2009, the court granted the Company's motion to stay the Michigan Action.

On February 19, 2010, discovery closed in the consolidated public payor actions. The parties are engaged in briefing regarding class certification in the Douglas County, Kansas and San Francisco Actions and trial in the Connecticut Action is set for July 19, 2010. No trial date is set in the San Francisco and Douglas County, Kansas Actions.

The New Jersey United States' Attorney's Office AWP Investigation

In June of 2007, the Company was informed that a *qui tam* action by an unknown relator was previously filed in the United States District Court in the District of New Jersey, purportedly on behalf of the United States, twelve states (California, Delaware, Florida, Hawaii, Illinois, Louisiana, Massachusetts, Nevada, New Mexico, Tennessee, Texas and Virginia) and the District of Columbia against the Company and seven other defendants. The Company has not been provided with the original complaint, which was filed in 2005, and does not know the identity of the original parties to the action. The Company was advised that the United States and the various states are considering whether to intervene in the suit, but none has done so to date. The suit thus remains under seal and has not been served on the Company.

In January 2009, the Company was provided with a courtesy copy of a third amended complaint filed in the *qui tam* action. This complaint has also not been served on the Company. The third amended complaint alleges multiple claims against the Company under the federal False Claims Act and the various states' and District of Columbia's false claims statutes. These and additional claims are also alleged against other parties. The claims arise out of alleged manipulation of AWP by defendants which plaintiffs claim caused them to pay more than they should have in reimbursement for prescription drugs covered by various government programs that base reimbursement payments on AWP. The complaint is brought on behalf of the United States, the twelve states named above, ten additional states (Georgia, Indiana, Michigan, Montana, New Hampshire, New Jersey, New York, Oklahoma, Rhode Island and Wisconsin) and the District of Columbia and seeks damages including treble damages and civil penalties (which the relator claims would be several billion dollars) as provided under the various False Claims Act statutes, as well as attorneys' fees and costs.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

III. Other Litigation and Claims

On April 7, 2010, an action was filed in the Superior Court of the State of California for the County of Los Angeles against, among others, the Company, its indirect subsidiary, NDCHealth Corporation (“NDC”) and “Relay Health,” a trade name under which NDC conducts business, *Rodriguez et al. vs. Etreby Computer Company et al.*, (Civ. No. BC435303) (“*Rodriguez*”). The plaintiffs in *Rodriguez* purport to represent a class of California residents whose individual confidential medical information was allegedly illegally released and used by defendants, and plaintiffs also purport to bring their claims as a private Attorney General action. The claims asserted in the complaint against the Company defendants include negligence, statutory violations and violation of California Business and Professions Code, Sections 17200 et seq. covering unfair, unlawful and fraudulent business acts and practices. The statutory violations alleged by plaintiffs purport to arise out of California Civil Code, Sections 56 through 56.37, also known as the Confidentiality of Medical Information Act (“CMIA”). The complaint seeks compensatory and statutory damages under the CMIA, equitable and injunctive relief, as well as interest and attorneys’ fees and costs, all in unspecified amounts. The complaint was served on April 14, 2010, and no other activity has occurred in the action.

On October 3, 2008, the United States filed a complaint in intervention in a pending *qui tam* action in the United States District Court for the Northern District of Mississippi, naming as defendants, among others, the Company and its former indirect subsidiary, McKesson Medical-Surgical MediNet Inc. (“MediNet”), now merged into and doing business as McKesson Medical-Surgical MediMart Inc., *United States v. McKesson Corporation, et al.*, (Civil Action No. 2:08-CV-00214-SA). The United States asserts in its complaint claims based on violations of the federal False Claims Act, 31 U.S.C Sections 3729-33, in connection with billing and supply services rendered by MediNet to the long-term care facility operator co-defendants. The action seeks monetary damages in an unstated amount. On December 3, 2008, the Company and co-defendants filed motions to dismiss the complaint on grounds that the allegations lacked the particularity required by the Federal Rules of Procedure and on grounds that the complaint failed to state a claim under the False Claims Act. On September 29, 2009, the trial court denied those motions. On July 7, 2009, all defendants filed motions to dismiss the action filed by the original Relator based on the contention that the Relator was not the original source of the claims, which he attempts to pursue in his *qui tam* action. On March 25, 2010, the trial court granted defendants’ motions to dismiss the Relator and his complaint. Discovery in the United States’ intervention action is expected to commence in the first quarter of 2011 and trial has been set for February 6, 2012.

On July 14, 2006, an action was filed in the United States District Court for the Eastern District of New York against McKesson, two McKesson employees, several other drug wholesalers and numerous drug manufacturers, *RxUSA v. Alcon Laboratories et al.*, (Case No. 06-CV-3447 -DRH). Plaintiff alleges that we, along with various other defendants, unlawfully engaged in monopolization and attempted monopolization of the sale and distribution of pharmaceutical products in violation of the federal antitrust laws, as well as in violation of New York State’s Donnelly Act. We are also alleged to have violated the Sarbanes-Oxley Act of 2002; and our employees are alleged to have violated the Donnelly Act, the Sarbanes-Oxley Act and Sections 1962 (c) and (d) of the civil RICO statute. Plaintiff alleges generally that defendants have individually, and in concert with one another, taken actions to create and maintain a monopoly and to exclude secondary wholesalers, such as the plaintiff, from the wholesale pharmaceutical industry. The complaint seeks monetary damages of approximately \$1.6 billion and also seeks treble damages, attorneys’ fees and injunctive relief. All defendants filed motions to dismiss all claims. The motions were briefed and submitted to the trial court on March 13, 2007. On September 24, 2009, the trial court issued its order granting “with prejudice” defendants’ motions to dismiss and on September 28, 2009, the trial court entered judgment dismissing all of plaintiff’s claims. On October 23, 2009, plaintiff filed a Notice of Appeal in the United States Court of Appeals for the Second Circuit seeking reversal of the trial court’s orders of dismissal and judgment. The briefing on the appeal was completed on April 21, 2010, and it is not yet known whether the court will set the matter for oral argument or will issue its decision on the submitted papers.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

On May 3, 2004, judgment was entered against the Company and one of our employees in the action captioned *Roby v. McKesson HBOC, Inc. et al.* (Superior Court for Yolo County, California, Case No. CV01-573). Former employee Charlene Roby (“Roby”) brought claims for wrongful termination, disability discrimination and disability-based harassment against the Company and a claim for disability-based harassment against her former supervisor. The jury awarded Roby compensatory damages against the Company and against plaintiff’s supervisor in the total amount of \$4 million and punitive damages in the amount of \$15 million against the Company. Following post-trial motions, the trial court reduced the amount of compensatory damages to \$3 million, the punitive damages awarded against both defendants and the compensatory damages awarded against the individual employee defendant were not reduced. Defendants filed a Notice of Appeal, seeking reduction or reversal of the compensatory and punitive damage awards and the award of attorneys’ fees. On December 26, 2006, the Court of Appeals for the Third Appellate District of California issued its decision reversing the verdict for harassment against Roby’s supervisor, reducing the compensatory damages from \$3 million to \$1 million and reducing punitive damages from \$15 million to \$2 million. Following the rejection of Roby’s petition for rehearing before the Court of Appeals, plaintiff petitioned for review by the California Supreme Court, which was granted on April 18, 2007. On November 30, 2009, the California Supreme Court issued its decision in this matter, reducing the ratio of punitive damages to compensatory damages from that ordered by the California Court of Appeals, and reinstating the harassment claim previously stricken by the Court of Appeals with a revised award of \$4 million, before interest. Both parties filed petitions for rehearing before the California Supreme Court and those petitions were denied on February 12, 2010. McKesson has paid the revised award. The only remaining issue to be resolved by the trial court relates to Roby’s claim for fees and costs on appeal.

Between 1976 and 1987, the Company’s former McKesson Chemical Company division operated a repackaging facility in Santa Fe Springs, California. The Company has been actively remediating the contamination at this site since 1994. Angeles Chemical Company (“Angeles”) conducted similar repackaging activities at its property adjacent to the Company’s site between 1976 and 2000. In late 2001, Angeles filed an action against McKesson, *Angeles Chemical Company v. McKesson Corporation, et al.* (United States District Court for the Central District of California Case No. 01-10532-TJH) claiming that McKesson’s contamination migrated to Angeles’ property. The causes of action in the latest complaint purport to state claims based on the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (as amended, the “Superfund” law or its state law equivalent) and the Resource Conservation and Recovery Act, as well as allege various state law claims, such as nuisance, trespass, negligence, defamation, interference with prospective advantage, unfair business practices and for declaratory relief, among others. Angeles seeks injunctive relief, as well as compensatory and punitive damages, attorneys’ fees and costs in an unspecified amount. On January 5, 2010, the Company entered into a settlement agreement, which fully resolves all outstanding disputes between the Company and the Angeles parties.

The Company is a defendant in approximately 519 cases alleging that the plaintiffs were injured by Vioxx, an anti-inflammatory drug manufactured by Merck & Company (“Merck”). The cases typically assert causes of action for strict liability, negligence, breach of warranty and false advertising for improper design, testing, manufacturing and warnings relating to the manufacture and distribution of Vioxx. None of the cases involving the Company is scheduled for trial. The Company has tendered each of these cases to Merck and has reached an agreement with Merck to defend and indemnify the Company.

The Company, through its former McKesson Chemical Company division, is named in approximately 450 cases involving the alleged distribution of asbestos. These cases typically involve either single or multiple plaintiffs claiming personal injuries and unspecified compensatory and punitive damages as a result of exposure to asbestos-containing materials. Pursuant to an indemnification agreement signed at the time of the 1987 sale of McKesson Chemical Company to what is now called Univar USA Inc. (“Univar”), the Company tendered each of these actions to Univar. Univar subsequently raised questions concerning the extent of its obligations under the indemnification agreement. Univar continued to defend the Company in some of these cases, but in February of 2005, Univar began rejecting tenders and accordingly, the Company incurred defense costs and *de minimis* settlement costs in connection with the more recently served actions. The Company filed an arbitration demand against Univar pursuant to the indemnification agreement seeking a determination that the liability for these cases is Univar’s responsibility. On February 9, 2010, the parties executed a settlement agreement, which provides that Univar will defend and indemnify the Company for all pending and future matters.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***IV. Government Investigations and Subpoenas*

From time-to-time, the Company receives subpoenas or requests for information from various government agencies. The Company generally responds to such subpoenas and requests in a cooperative, thorough and timely manner. These responses sometimes require considerable time and effort and can result in considerable costs being incurred by the Company. Such subpoenas and requests also can lead to the assertion of claims or the commencement of civil or criminal legal proceedings against the Company and other members of the health care industry, as well as to settlements. Examples of such requests and subpoenas include the following: (1) the Company has responded to a request from the Federal Trade Commission for certain documents as part of a non-public investigation to determine whether the Company may have engaged in anti-competitive practices with other wholesale pharmaceutical distributors in order to limit competition for provider customers seeking distribution services; (2) the Company has received and responded to a Civil Investigative Demand from the Attorney General's Office of the State of Tennessee related to an investigation into possible violations of the Tennessee Medicaid False Claims Act in connection with repackaged pharmaceuticals; (3) the Company has responded to a subpoena from the office of the Attorney General of the State of New York requesting documents and other information concerning its participation in the secondary or "alternative source" market for pharmaceutical products; (4) the Company has received and have responded to subpoenas and requests for information from a number of Offices of state Attorney Generals or other state agencies, relating to the pricing, including FDB's AWP, for branded and generic drugs; and (5) the Company has completed its response to a subpoena, issued by the United States Attorney's Office ("USAO") in Houston, which seeks documents relating to billing and collection services performed by a Company subsidiary for certain healthcare operations associated with the University of Texas from 2004 through the dates of the subpoenas.

As previously reported, on January 26, 2007, the Company acquired Per-Se Technologies, Inc. ("Per-Se"), which became a wholly owned subsidiary. Prior to its acquisition, Per-Se had publicly disclosed that in December 2004, the SEC issued a formal order of investigation relating to accounting matters at NDCHealth Corporation ("NDCHealth"), a then public company, which was acquired by Per-Se in January 2006, prior to the Company's acquisition of Per-Se. In March 2005, NDCHealth restated its financial statements for the fiscal years ended May 28, 2004, May 30, 2003 and May 31, 2002, and for the fiscal quarters ended August 22, 2004, and August 29, 2005, to correct errors relating to certain accounting matters. NDCHealth produced documents to the SEC and fully cooperated with the SEC in its investigation. The SEC has taken testimony from a number of current and former NDCHealth employees. There has been no activity in this matter for some time and the SEC has taken no action against NDCHealth or its successor to date.

V. Environmental Matters

Primarily as a result of the operation of the Company's former chemical businesses, which were fully divested by 1987, the company is involved in various matters pursuant to environmental laws and regulations. The Company has received claims and demands from governmental agencies relating to investigative and remedial actions purportedly required to address environmental conditions alleged to exist at eight sites where it, or entities acquired by it, formerly conducted operations and the Company, by administrative order or otherwise, has agreed to take certain actions at those sites, including soil and groundwater remediation. In addition, the Company is one of multiple recipients of a New Jersey Department of Environmental Protection Agency directive and a separate United States Environmental Protection Agency directive relating to potential natural resources damages ("NRD") associated with one of these eight sites. Although the Company's potential allocation under either directive cannot be determined at this time, it has agreed to participate with a potentially responsible party ("PRP") group in the funding of an NRD assessment, the costs of which are reflected in the aggregate estimates set forth below.

Based on a determination by the Company's environmental staff, in consultation with outside environmental specialists and counsel, the current estimate of reasonably possible remediation costs for these eight sites is \$8.4 million, net of approximately \$1.9 million that third parties have agreed to pay in settlement or is expected, based either on agreements or nonrefundable contributions which are ongoing, to be contributed by third parties. The \$8.4 million is expected to be paid out between April 2010 and March 2030. The Company's estimated liability for these environmental matters has been accrued in the accompanying consolidated balance sheets.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

In addition, the Company has been designated as a PRP under the Superfund law for environmental assessment and cleanup costs as the result of its alleged disposal of hazardous substances at 18 sites. With respect to these sites, numerous other PRPs have similarly been designated and while the current state of the law potentially imposes joint and several liability upon PRPs, as a practical matter, costs of these sites are typically shared with other PRPs. The estimated liability at those 18 sites is approximately \$0.9 million. The aggregate settlements and costs paid by the Company in Superfund matters to date have not been significant. The accompanying consolidated balance sheets include this environmental liability.

VI. Other Matters

The Company is involved in various other litigation and governmental proceedings, not described above, that arise in the normal course of business. While it is not possible to determine with certainty the ultimate outcome or the duration of any such litigation or governmental proceedings, the Company believes, based on current knowledge and the advice of counsel, that such litigation and proceedings will not have a material impact on the Company's financial position or results of operations.

19. Stockholders' Equity

Each share of the Company's outstanding common stock is permitted one vote on proposals presented to stockholders and is entitled to share equally in any dividends declared by the Company's Board of Directors (the "Board").

Share Repurchase Plans

In April 2010, the Board authorized the repurchase of up to an additional \$1.0 billion of the Company's common stock. Stock repurchases may be made from time-to-time in open market transactions, privately negotiated transactions, through accelerated share repurchase programs, or by any combination of such methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations and other market and economic conditions. Information regarding our share repurchase activity is as follows:

	Share Repurchases ⁽¹⁾		Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
	Total Number of Shares Purchased ^{(2) (3)}	Average Price Paid Per Share	
<i>(In millions, except price per share data)</i>			
Balance, March 31, 2007			\$ —
Share repurchase plans approved			
April 2007			1,000
September 2007			1,000
Shares repurchased	28	\$ 59.48	(1,686)
Balance, March 31, 2008			\$ 314
Share repurchase plan approved			
April 2008			1,000
Shares repurchased	10	\$ 50.52	(484)
Balance, March 31, 2009			\$ 830
Shares repurchased	8	\$ 41.47	(299)
Balance, March 31, 2010			\$ 531

(1) This table does not include shares tendered to satisfy the exercise price in connection with cashless exercises of employee stock options or shares tendered to satisfy tax withholding obligations in connection with employee equity awards.

(2) All of the shares purchased were part of the publicly announced programs.

(3) The number of shares purchased reflects rounding adjustments.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

In July 2008, the Board authorized the retirement of shares of the Company's common stock that may be repurchased from time-to-time pursuant to its stock repurchase program. During the second quarter of 2009, all of the 4 million repurchased shares, which we purchased for \$204 million, were formally retired by the Company. The retired shares constitute authorized but unissued shares. We elected to allocate any excess of share repurchase price over par value between additional paid-in capital and retained earnings. As such, \$165 million was recorded as a decrease to retained earnings.

Accumulated Other Comprehensive Income (Loss)

Information regarding our other comprehensive income (loss) is as follows:

<i>(In millions)</i>	March 31,	
	2010	2009
Unrealized net loss and other components of benefit plans, net of tax	\$ (162)	\$ (109)
Translation adjustments	168	(70)
Total	\$ 6	\$ (179)

20. Related Party Balances and Transactions

Notes receivable outstanding from certain of our current and former officers and senior managers totaled \$16 million at March 31, 2010 and 2009. These notes related to purchases of common stock under our various employee stock purchase plans. The notes bear interest at rates ranging from 4.7% to 7.1% and were due at various dates through February 2004. Interest income on these notes is recognized only to the extent that cash is received. These notes, which are included in other capital in the consolidated balance sheets, were issued for amounts equal to the market value of the stock on the date of the purchase and are at full recourse to the borrower. At March 31, 2010, the value of the underlying stock collateral was \$12 million. The collectability of these notes is evaluated on an ongoing basis. At March 31, 2010 and 2009, we provided a reserve of approximately \$4 million and \$9 million for the outstanding notes. Other receivable balances held with related parties, consisting of loans made to certain officers and senior managers and an equity-held investment, amounted to nil and \$1 million at March 31, 2010 and 2009.

We incurred \$11 million in 2010 and \$10 million in 2009 and 2008 of annual rental expense paid to an equity-held investment.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)****21. Segments of Business**

We report our operations in two operating segments: McKesson Distribution Solutions and McKesson Technology Solutions. The factors for determining the reportable segments included the manner in which management evaluates the performance of the Company combined with the nature of the individual business activities. We evaluate the performance of our operating segments based on operating profit before interest expense, income taxes and results from discontinued operations.

The Distribution Solutions segment distributes ethical and proprietary drugs, medical-surgical supplies and equipment and health and beauty care products throughout North America. This segment also provides specialty pharmaceutical solutions for biotech and pharmaceutical manufacturers, sells financial, operational and clinical solutions for pharmacies (retail, hospital, long-term care) and provides consulting, outsourcing and other services. This segment includes a 49% interest in Nadro, S.A. de C.V. (“Nadro”), one of the leading pharmaceutical distributors in Mexico and a 39% interest in Parata, which sells automated pharmacy and supply management systems and services to retail and institutional outpatient pharmacies.

The Technology Solutions segment delivers enterprise-wide clinical, patient care, financial, supply chain, strategic management software solutions, pharmacy automation for hospitals, as well as connectivity, outsourcing and other services, including remote hosting and managed services, to healthcare organizations. The segment also includes our Payor group of businesses, which includes our InterQual® claims payment solutions, medical management software businesses and our care management programs. The segment’s customers include hospitals, physicians, homecare providers, retail pharmacies and payors from North America, the United Kingdom, Ireland, other European countries, Asia Pacific and Israel.

Revenues for our Technology Solutions segment are classified in one of three categories: services, software and software systems and hardware. Services revenues primarily include fees associated with installing our software and software systems, as well as revenues associated with software maintenance and support, remote processing, disease and medical management, and other outsourcing and professional services. Software and software systems revenues primarily include revenues from licensing our software and software systems, including the segment’s clinical auditing and compliance and InterQual® businesses.

Corporate includes expenses associated with Corporate functions and projects, certain employee benefits and the results of certain equity-held investments. Corporate expenses are allocated to the operating segments to the extent that these items can be directly attributable to the segment.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Financial information relating to the reportable operating segments is presented below:

(In millions)	Years Ended March 31,		
	2010	2009	2008
Revenues			
Distribution Solutions ⁽¹⁾			
Direct distribution & services	\$ 72,210	\$ 66,876	\$ 60,436
Sales to customers' warehouses	21,435	25,809	27,668
Total U.S. pharmaceutical distribution & services	93,645	92,685	88,104
Canada pharmaceutical distribution & services	9,072	8,225	8,106
Medical-Surgical distribution & services	2,861	2,658	2,509
Total Distribution Solutions	105,578	103,568	98,719
Technology Solutions			
Services ⁽²⁾	2,439	2,337	2,240
Software & software systems	571	572	591
Hardware	114	155	153
Total Technology Solutions	3,124	3,064	2,984
Total	\$ 108,702	\$ 106,632	\$ 101,703
Operating profit ⁽³⁾			
Distribution Solutions ⁽⁴⁾	\$ 1,988	\$ 1,158	\$ 1,483
Technology Solutions ⁽²⁾	385	334	319
Total	2,373	1,492	1,802
Corporate	(342)	(284)	(208)
Litigation credit, net	20	-	5
Interest expense	(187)	(144)	(142)
Income from continuing operations before income taxes	\$ 1,864	\$ 1,064	\$ 1,457
Depreciation and amortization ⁽⁵⁾			
Distribution Solutions	\$ 199	\$ 177	\$ 144
Technology Solutions	212	205	180
Corporate	63	59	47
Total	\$ 474	\$ 441	\$ 371
Expenditures for long-lived assets ⁽⁶⁾			
Distribution Solutions	\$ 95	\$ 83	\$ 96
Technology Solutions	31	43	54
Corporate	73	69	45
Total	\$ 199	\$ 195	\$ 195
Segment assets, at year end			
Distribution Solutions	\$ 19,803	\$ 18,674	\$ 18,382
Technology Solutions	3,635	3,606	3,797
Total	23,438	22,280	22,179
Corporate			
Cash and cash equivalents	3,731	2,109	1,362
Other	1,020	878	1,062
Total	\$ 28,189	\$ 25,267	\$ 24,603

(1) Revenues derived from services represent less than 1% of this segment's total revenues for 2010, 2009 and 2008.

(2) Revenues and operating profit for 2008 for our Technology Solutions segment reflect the recognition of \$21 million of disease management deferred revenues for which expenses associated with these revenues were previously recognized as incurred.

(3) Operating profit includes net earnings of \$7 million, \$7 million and \$21 million from equity investments in 2010, 2009 and 2008. These earnings are primarily recorded within our Distribution Solutions segment.

(4) Operating profit for 2010 includes a \$17 million pre-tax gain on the sale of our 50% equity interest in MLS. Operating profit for 2009 includes the following pre-tax items: a \$63 million charge to write-down two equity-held investments, a \$493 million charge associated with the AWP litigation and a \$24 million pre-tax gain on the sale of our 42% equity interest in Verispan.

(5) Depreciation and amortization includes amortization of intangibles, capitalized software held for sale and capitalized software for internal use.

(6) Long-lived assets consist of property, plant and equipment.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Revenues and property, plant and equipment by geographic areas were as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2010	2009	2008
Revenues			
United States	\$ 99,387	\$ 98,194	\$ 93,389
International	9,315	8,438	8,314
Total	<u>\$ 108,702</u>	<u>\$ 106,632</u>	<u>\$ 101,703</u>
Property, plant and equipment, net, at year end			
United States	\$ 764	\$ 719	\$ 695
International	87	77	80
Total	<u>\$ 851</u>	<u>\$ 796</u>	<u>\$ 775</u>

International operations primarily consist of our operations in Canada, the United Kingdom, Ireland, other European countries, Asia Pacific and Israel. We also have an equity-held investment (Nadro) in Mexico. Net revenues were attributed to geographic areas based on the customers' shipment locations.

McKESSON CORPORATION

FINANCIAL NOTES (Concluded)

22. Quarterly Financial Information (Unaudited)

<i>(In millions, except per share amounts)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Fiscal 2010					
Revenues	\$ 26,657	\$ 27,130	\$ 28,272	\$ 26,643	\$ 108,702
Gross profit	1,303	1,335	1,455	1,583	5,676
Net income ⁽¹⁾	288	301	326	348	1,263
Earnings per common share ⁽¹⁾					
Diluted	1.06	1.11	1.19	1.26	4.62
Basic	1.07	1.13	1.21	1.29	4.70
Fiscal 2009					
Revenues	\$ 26,704	\$ 26,574	\$ 27,130	\$ 26,224	\$ 106,632
Gross profit	1,268	1,302	1,343	1,465	5,378
Net income ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾	235	327	(20)	281	823
Earnings per common share ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾					
Diluted	0.83	1.17	(0.07)	1.01	2.95
Basic	0.85	1.19	(0.07)	1.03	2.99

- (1) Financial results for the third quarter and full year 2010 include a \$17 million pre-tax gain (\$14 million after-tax) on sale of our 50% interest in MLS.
- (2) Financial results for the second quarter and full year 2009 include a \$24 million pre-tax gain (\$14 million after-tax) on sale of our 42% interest in Verispan.
- (3) Financial results for the second and fourth quarters and full year 2009 include \$67 million, \$22 million and \$89 million of income tax credits related to the recognition of previously unrecognized tax benefits and related interest expense as a result of the lapsing of the statutes of limitations.
- (4) Financial results for the third quarter and full year 2009 include a \$493 million pre-tax charge (\$311 million after-tax) associated with the AWP litigation.
- (5) Financial results for the fourth quarter and full year 2009 include a \$63 million pre-tax impairment charge (\$60 million after-tax) associated with two equity-held investments.

23. Subsequent Events

In April 2010, our Technology Solutions segment entered into a definitive agreement to sell its wholly-owned subsidiary, McKesson Asia Pacific Pty Limited, a provider of phone and web-based healthcare services in Australia and New Zealand. This agreement is the result of an unsolicited purchase offer. The divestiture is subject to regulatory approval. Upon completion of the sale, any gain will be reported as “discontinued operations” in our consolidated financial statements.

On May 4, 2010, we received \$51 million cash proceeds representing our share of a settlement of an antitrust class action lawsuit. This will be recorded as a reduction of cost of sales in our consolidated statement of operations in the first quarter of 2011.

McKESSON CORPORATION

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our Chief Executive Officer and our Chief Financial Officer, with the participation of other members of the Company's management, have evaluated the effectiveness of the Company's "disclosure controls and procedures" (as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report, and have concluded that our disclosure controls and procedures are effective based on their evaluation of these controls and procedures as required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

Internal Control over Financial Reporting

Management's report on the Company's internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) and the related report of our independent registered public accounting firm are included on page 51 and page 52 of this Annual Report on Form 10-K, under the headings, "Management's Annual Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm" and are incorporated herein by reference.

Changes in Internal Controls

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Not applicable.

McKESSON CORPORATION

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information about our Directors is incorporated by reference from the discussion under Item 1 of our Proxy Statement for the 2010 Annual Meeting of Stockholders (the “Proxy Statement”) under the heading “Election of Directors.” Information about compliance with Section 16(a) of the Exchange Act is incorporated by reference from the discussion under the heading “Section 16(a) Beneficial Ownership Reporting Compliance” in our Proxy Statement. Information about our Audit Committee, including the members of the committee and our Audit Committee Financial Expert, is incorporated by reference from the discussion under the headings “Audit Committee Report” and “Audit Committee Financial Expert” in our Proxy Statement.

Information about the Code of Ethics governing our Chief Executive Officer, Chief Financial Officer, Controller and Financial Managers can be found on our Web site, www.mckesson.com, under the Investors – Corporate Governance tab. The Company’s Corporate Governance Guidelines and Charters for the Audit and Compensation Committees and the Committee on Directors and Corporate Governance can also be found on our Web site under the Investors – Corporate Governance tab.

The Company intends to disclose required information regarding any amendment to or waiver under the Code of Ethics referred to above by posting such information on our Web site within four business days after any such amendment or waiver.

Item 11. Executive Compensation

Information with respect to this item is incorporated by reference from the discussion under the heading “Executive Compensation” in our Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information about security ownership of certain beneficial owners and management is incorporated by reference from the discussion under the heading “Principal Stockholders” in our Proxy Statement.

The following table sets forth information as of March 31, 2010 with respect to the plans under which the Company’s common stock is authorized for issuance:

<i>Plan Category</i> <i>(In millions, except per share amounts)</i>	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights ⁽¹⁾	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders ⁽²⁾	15.8	\$ 43.50	23.7 ⁽³⁾
Equity compensation plans not approved by security holders ⁽⁴⁾	3.9	34.27	

- (1) The weighted-average exercise price set forth in this column is calculated excluding outstanding restricted stock unit (“RSU”) awards, since recipients are not required to pay an exercise price to receive the shares subject to these awards.
- (2) Represents option and RSU awards, outstanding under the following plans: (i) 1994 Stock Option and Restricted Stock Plan; (ii) 1997 Non-Employee Directors’ Equity Compensation and Deferral Plan; and (iii) the 2005 Stock Plan.
- (3) Represents 3,254,030 shares that remained available for purchase under the 2000 Employee Stock Purchase Plan and 20,464,898 shares available for grant under the 2005 Stock Plan.
- (4) Represents options and RSU awards outstanding under the following plans: (i) 1999 Stock Option and Restricted Stock Plan; and (ii) the 1998 Canadian Stock Incentive Plan. No further awards will be made under any of these plans.

McKESSON CORPORATION

The following are descriptions of equity plans that have been approved by the Company's stockholders. The plans are administered by the Compensation Committee of the Board of Directors, except for the portion of the 2005 Stock Plan related to Non-Employee Directors, which is administered by the Committee on Directors and Corporate Governance.

2005 Stock Plan: The 2005 Stock Plan was adopted by the Board of Directors on May 25, 2005 and approved by the Company's stockholders on July 27, 2005. The 2005 Stock Plan permits the granting of up to 42.5 million shares in the form of stock options, restricted stock ("RS"), RSUs, performance-based restricted stock units ("PeRSUs") and other share-based awards. For any one share of common stock issued in connection with a RS, RSU, PeRSU or other share-based award, two shares shall be deducted from the shares available for future grants. Shares of common stock not issued or delivered as a result of the net exercise of a stock option, shares used to pay the withholding taxes related to a stock award or shares repurchased on the open market with proceeds from the exercise of options shall not be returned to the reserve of shares available for issuance under the 2005 Stock Plan.

Stock options are granted at no less than fair market value and those options granted under the 2005 Stock Plan generally have a contractual term of seven years. Prior to 2005, stock options typically had a contractual term of ten years. Options generally become exercisable in four equal annual installments beginning one year after the grant date or after four years from the date of grant. The vesting of RS or RSUs is determined by the Compensation Committee at the time of grant. RS and RSUs generally vest over four years. Vesting of PeRSUs ranges from one to three-year periods following the end of the performance period and may follow the graded or cliff method of vesting.

Non-employee directors may be granted an award on the date of each annual meeting of the stockholders for up to 5,000 RSUs, as determined by the Board. Such non-employee director award is fully vested on the date of the grant.

2000 Employee Stock Purchase Plan (the "ESPP"): The ESPP is intended to qualify as an "employee stock purchase plan" within the meaning of Section 423 of the Internal Revenue Code. In March 2002, the Board amended the ESPP to allow for participation in the plan by employees of certain of the Company's international and certain other subsidiaries. As to those employees, the ESPP does not qualify under Section 423 of the Internal Revenue Code. Currently, 16 million shares have been approved by stockholders for issuance under the ESPP.

The ESPP is implemented through a continuous series of three-month purchase periods ("Purchase Periods") during which contributions can be made toward the purchase of common stock under the plan.

Each eligible employee may elect to authorize regular payroll deductions during the next succeeding Purchase Period, the amount of which may not exceed 15% of a participant's compensation. At the end of each Purchase Period, the funds withheld by each participant will be used to purchase shares of the Company's common stock. The purchase price of each share of the Company's common stock is based on 85% of the fair market value of each share on the last day of the applicable Purchase Period. In general, the maximum number of shares of common stock that may be purchased by a participant for each calendar year is determined by dividing \$25,000 by the fair market value of one share of common stock on the offering date.

The following are descriptions of equity plans that have not been submitted for approval by the Company's stockholders:

On July 27, 2005, the Company's stockholders approved the 2005 Stock Plan which had the effect of terminating the 1999 Stock Option and Restricted Stock Plan, the 1998 Canadian Stock Incentive Plan and certain 1999 one-time stock option plan awards, which plans had not been submitted for approval by the Company's stockholders, and the 1997 Non-Employee Directors' Equity Compensation and Deferral Plan, which had previously been approved by the Company's stockholders. Prior grants under these plans include stock options, RS and RSUs. Stock options under the terminated plans generally have a ten-year life and vest over four years. RS contains certain restrictions on transferability and may not be transferred until such restrictions lapse. Each of these plans has outstanding equity grants, which are subject to the terms and conditions of their respective plans, but no new grants will be made under these terminated plans.

McKESSON CORPORATION

Item 13. Certain Relationships and Related Transactions and Director Independence

Information with respect to certain transactions with management is incorporated by reference from the Proxy Statement under the heading “Certain Relationships and Related Transactions.” Additional information regarding certain related party balances and transactions is included in the Financial Review section of this Annual Report on Form 10-K and Financial Note 20, “Related Party Balances and Transactions,” to the consolidated financial statements.

Item 14. Principal Accounting Fees and Services

Information regarding principal accounting fees and services is set forth under the heading “Ratification of Appointment of Deloitte & Touche LLP as the Company’s Independent Registered Public Accounting Firm for Fiscal 2011” in our Proxy Statement and all such information is incorporated herein by reference.

McKESSON CORPORATION**PART IV****Item 15. Exhibits and Financial Statement Schedule**

	<u>Page</u>
(a)(1) Consolidated Financial Statements.....	
Report of Deloitte & Touche, LLP, Independent Registered Public Accounting Firm	52
Consolidated Statements of Operations for the years ended March 31, 2010, 2009 and 2008	53
Consolidated Balance Sheets as of March 31, 2010 and 2009	54
Consolidated Statements of Stockholders' Equity for the years ended March 31, 2010, 2009 and 2008	55
(a)(2) Financial Statement Schedule	
Schedule II—Valuation and Qualifying Accounts	112
All other schedules not included have been omitted because of the absence of conditions under which they are required or because the required information, where material, is shown in the financial statements, financial notes or supplementary financial information.	
(a)(3) Exhibits submitted with this Annual Report on Form 10-K as filed with the SEC and those incorporated by reference to other filings are listed on the Exhibit Index.....	113

McKESSON CORPORATION

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

McKESSON CORPORATION

Dated: May 4, 2010

/s/ Jeffrey C. Campbell
Jeffrey C. Campbell
 Executive Vice President and Chief Financial Officer

On behalf of the Registrant and pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the date indicated:

*

John H. Hammergren
 Chairman, President and Chief Executive Officer
 (Principal Executive Officer)

*

Jeffrey C. Campbell
 Executive Vice President and Chief Financial Officer
 (Principal Financial Officer)

*

Nigel A. Rees
 Vice President and Controller
 (Principal Accounting Officer)

*

Andy D. Bryant, Director

*

Wayne A. Budd, Director

*

Alton F. Irby III, Director

*

M. Christine Jacobs, Director

*

Marie L. Knowles, Director

*

David M. Lawrence, M.D., Director

*

Edward A. Mueller, Director

*

Jane E. Shaw, Director

*

/s/ Laureen E. Seeger
Laureen E. Seeger
 *Attorney-in-Fact

Dated: May 4, 2010

McKESSON CORPORATION

SCHEDULE II

SUPPLEMENTARY CONSOLIDATED FINANCIAL STATEMENT SCHEDULE
VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended March 31, 2010, 2009 and 2008
(In millions)

Description	Balance at Beginning of Year	Additions		Deductions	Balance at End of Year ⁽²⁾
		Charged to Costs and Expenses	Charged to Other Accounts ⁽³⁾	From Allowance Accounts ⁽¹⁾	
Year Ended March 31, 2010					
Allowances for doubtful accounts	\$ 152	\$ 17	\$ 7	\$ (45)	\$ 131
Other allowances	12	6	10	(4)	24
	<u>\$ 164</u>	<u>\$ 23</u>	<u>\$ 17</u>	<u>\$ (49)</u>	<u>\$ 155</u>
Year Ended March 31, 2009					
Allowances for doubtful accounts	\$ 163	\$ 27	\$ 3	\$ (41)	\$ 152
Other allowances	9	6	1	(4)	12
	<u>\$ 172</u>	<u>\$ 33</u>	<u>\$ 4</u>	<u>\$ (45)</u>	<u>\$ 164</u>
Year Ended March 31, 2008					
Allowances for doubtful accounts	\$ 139	\$ 41	\$ 17	\$ (34)	\$ 163
Other allowances	11	—	—	(2)	9
	<u>\$ 150</u>	<u>\$ 41</u>	<u>\$ 17</u>	<u>\$ (36)</u>	<u>\$ 172</u>

	2010	2009	2008
(1) Deductions:			
Written off	\$ 49	\$ 27	\$ 32
Operation sold	—	6	-
Credited to other accounts	—	12	2
Total	<u>\$ 49</u>	<u>\$ 45</u>	<u>\$ 34</u>

(2) Amounts shown as deductions from current and non-current receivables	<u>\$ 155</u>	<u>\$ 164</u>	<u>\$ 172</u>
--	---------------	---------------	---------------

(3) Primarily represents reclassifications from other balance sheet accounts.

McKESSON CORPORATION**EXHIBIT INDEX**

The agreements included as exhibits to this report are included to provide information regarding their terms and not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements may contain representations and warranties by each of the parties to the applicable agreement that were made solely for the benefit of the other parties to the applicable agreement, and;

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.

Exhibits identified under “Incorporated by Reference” in the table below are on file with the Commission and are incorporated by reference as exhibits hereto.

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation of the Company as filed with the Delaware Secretary of State on July 25, 2007.	10-Q	1-13252	3.1	October 31, 2007
3.2	Amended and Restated By-Laws of the Company, dated as of April 22, 2009.	8-K	1-13252	3.2	April 28, 2009
4.1	Indenture, dated as of March 11, 1997, between the Company, as Issuer, and The First National Bank of Chicago, as Trustee.	10-K	1-13252	4.4	June 19, 1997
4.2	Indenture, dated as of January 29, 2002, between the Company, as Issuer, and the Bank of New York, as Trustee.	10-K	1-13252	4.6	June 12, 2002
4.3	Indenture, dated as of March 5, 2007, by and between the Company, as Issuer, and The Bank of New York Trust Company, N.A., as Trustee.	8-K	1-13252	4.1	March 5, 2007
10.1*	McKesson Corporation 1994 Stock Option and Restricted Stock Plan as amended through July 31, 2001.	10-K	1-13252	10.4	June 12, 2002
10.2*	McKesson Corporation 1999 Stock Option and Restricted Stock Plan, as amended through May 26, 2004.	10-K	1-13252	10.2	May 7, 2008
10.3*	McKesson Corporation 1997 Non-Employee Directors' Equity Compensation and Deferral Plan, as amended through January 29, 2003.	10-K	1-13252	10.4	June 10, 2004
10.4*	McKesson Corporation Supplemental Profit Sharing Investment Plan, as amended and restated on January 29, 2003.	10-K	1-13252	10.6	June 6, 2003
10.5*	McKesson Corporation Supplemental Profit Sharing Investment Plan II, as amended and restated on October 24, 2008.	10-Q	1-13252	10.1	October 29, 2008

McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
10.6*	McKesson Corporation Deferred Compensation Administration Plan, amended and restated effective October 28, 2004.	10-K	1-13252	10.6	May 13, 2005
10.7*	McKesson Corporation Deferred Compensation Administration Plan II, as amended and restated effective October 28, 2004, including Amendment No. 1 thereto effective July 25, 2007.	10-K	1-13252	10.7	May 7, 2008
10.8*	McKesson Corporation Deferred Compensation Administration Plan III, as amended and restated on October 24, 2008.	10-Q	1-13252	10.2	October 29, 2008
10.9*	McKesson Corporation 1994 Option Gain Deferral Plan, as amended and restated as of October 28, 2004.	10-K	1-13252	10.8	May 13, 2005
10.10*	McKesson Corporation Executive Benefit Retirement Plan, as amended and restated on October 24, 2008.	10-Q	1-13252	10.3	October 29, 2008
10.11*	McKesson Corporation Executive Survivor Benefits Plan, as amended and restated as of January 20, 2010.	8-K	1-13252	10.1	January 25, 2010
10.12*	McKesson Corporation Severance Policy for Executive Employees, as amended and restated on December 29, 2008.	10-K	1-13252	10.12	May 5, 2009
10.13*	McKesson Corporation Change in Control Policy for Selected Executive Employees, as amended and restated on April 21, 2009.	10-K	1-13252	10.13	May 5, 2009
10.14*†	McKesson Corporation 2005 Management Incentive Plan, as amended and restated on April 20, 2010.	—	—	—	—
10.15*†	Form of Statement of Terms and Conditions Applicable to Awards Pursuant to the McKesson Corporation 2005 Management Incentive Plan, effective April 20, 2010.	—	—	—	—
10.16*	McKesson Corporation Long-Term Incentive Plan, as amended and restated on October 24, 2008 and effective as of January 1, 2009.	10-Q	1-13252	10.6	October 29, 2008
10.17*	McKesson Corporation Stock Purchase Plan, as amended through July 31, 2002.	10-K	1-13252	10.19	June 6, 2003
10.18*†	McKesson Corporation 2005 Stock Plan, as amended and restated on April 20, 2010.	—	—	—	—
10.19*†	Forms of (i) Statement of Standard Terms and Conditions applicable to Options, Restricted Stock, Restricted Stock Units and Performance Shares, (ii) Stock Option Grant Notice and (iii) Restricted Stock Unit Agreement, under the McKesson Corporation 2005 Stock Plan, as amended and restated on April 20, 2010.	—	—	—	—

McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
10.20	Second Amended and Restated Receivables Purchase Agreement, dated as of May 20, 2009, among the Company, as servicer, CGSF Funding Corporation, as seller, the several conduit purchasers from time to time party to the Agreement, the several committed purchasers from time to time party to the Agreement, the several managing agents from time to time party to the Agreement, and JPMorgan Chase Bank, N.A., as collateral agent.	10-Q	1-13252	10.1	July 28, 2009
10.21	Amended and Restated Credit Agreement, dated as of June 8, 2007 among the Company and McKesson Canada Corporation, collectively, the Borrowers, Bank of America, N.A., as Administrative Agent, Bank of America, N.A. (acting through its Canada branch), as Canadian Administrative Agent, JPMorgan Chase Bank and Wachovia Bank, National Association, as Co-Syndication Agents, Wachovia Bank, National Association, as L/C Issuer, The Bank of Nova Scotia and The Bank of Tokyo-Mitsubishi UFJ, LTD., Seattle branch, as Co-Documentation Agents, and The Other Lenders Party Hereto Banc of America Securities LLC, as sole lead arranger and sole book manager.	10-K	1-13252	10.1	June 14, 2007
10.22	Purchase Agreement, dated as of December 31, 2002, between McKesson Capital Corp. and General Electric Capital Corporation.	10-K	1-13252	10.41	June 6, 2003
10.23	Services Agreement, dated as of December 31, 2002, between McKesson Capital Corp. and General Electric Capital Corporation.	10-K	1-13252	10.42	June 6, 2003
10.24	Interim Credit Agreement, dated as of January 26, 2007, among the Company, Bank of America N.A., as Administrative Agent, Wachovia Bank, National Association, as Syndication Agent, the other Lenders party there to, and Banc of America Securities LLC and Wachovia Capital Markets, LLC, as Joint Lead Arrangers and Joint Book Managers.	8-K	1-13252	10.1	January 26, 2007
10.25*	Amended and Restated Employment Agreement, dated as of November 1, 2008, by and between the Company and its Chairman, President and Chief Executive Officer.	10-Q	1-13252	10.10	October 29, 2008
10.26*	Amended and Restated Employment Agreement, dated as of November 1, 2008, by and between the Company and its Executive Vice President and Group President.	10-Q	1-13252	10.12	October 29, 2008
10.27*†	Form of Director and Officer Indemnity Agreement.	—	—	—	—
12†	Computation of Ratio of Earnings to Fixed Charges.	—	—	—	—

McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
21†	List of Subsidiaries of the Registrant.	—	—	—	—
23†	Consent of Independent Registered Public Accounting Firm, Deloitte & Touche LLP.	—	—	—	—
24†	Power of Attorney.	—	—	—	—
31.1†	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, and adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	—	—	—	—
31.2†	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934 as amended, and adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	—	—	—	—
32††	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	—	—	—	—

* Management contract or compensation plan or arrangement in which directors and/or executive officers are eligible to participate.

† Filed herewith.

†† Furnished herewith.

††† Confidential treatment has been granted for certain portions of this exhibit and such confidential portions have been filed with the Commission.

Registrant agrees to furnish to the Commission upon request a copy of each instrument defining the rights of security holders with respect to issues of long-term debt of the registrant, the authorized principal amount of which does not exceed 10% of the total assets of the registrant.

McKESSON CORPORATION

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

John H. Hammergren
Chairman, President and Chief Executive Officer,
McKesson Corporation

Andy D. Bryant
Executive Vice President and
Chief Administrative Officer,
Intel Corporation

Wayne A. Budd
Senior Counsel,
Goodwin Procter LLP

Alton F. Irby III
Chairman and Founding Partner,
London Bay Capital

M. Christine Jacobs
Chairman of the Board, President and
Chief Executive Officer,
Theragenics Corporation

Marie L. Knowles
Executive Vice President and
Chief Financial Officer Retired,
Atlantic Richfield Company

David M. Lawrence, M.D.
Chairman of the Board and
Chief Executive Officer Retired,
Kaiser Foundation Health Plan, Inc. and
Kaiser Foundation Hospitals

Edward A. Mueller
Chairman of the Board and Chief Executive Officer,
Qwest Communications International, Inc.

Jane E. Shaw, Ph.D.
Chairman of the Board, Intel Corporation,
Chairman of the Board and
Chief Executive Officer Retired,
Aerogen, Inc.

CORPORATE OFFICERS

John H. Hammergren
Chairman, President and Chief Executive Officer

Patrick J. Blake
Executive Vice President and Group President

Jeffrey C. Campbell
Executive Vice President and Chief Financial Officer

Jorge L. Figueredo
Executive Vice President, Human Resources

Paul C. Julian
Executive Vice President and Group President

Marc E. Owen
Executive Vice President, Corporate Strategy and
Business Development

Laureen E. Seeger
Executive Vice President, General Counsel
and Chief Compliance Officer

Randall N. Spratt
Executive Vice President, Chief Technology Officer
and Chief Information Officer

Nicholas A. Loiacono
Vice President and Treasurer

Nigel A. Rees
Vice President and Controller

Willie C. Bogan
Secretary

McKESSON CORPORATION

CORPORATE INFORMATION

Common Stock

McKesson Corporation common stock is listed on the New York Stock Exchange (ticker symbol MCK) and is quoted in the daily stock tables carried by most newspapers.

Stockholder Information

BNY MELLON Shareowner Services, 480 Washington Boulevard, Newport Office Center VII, 29th Floor, Jersey City, NJ 07310 acts as transfer agent, registrar, dividend-paying agent and dividend reinvestment plan agent for McKesson Corporation stock and maintains all registered stockholder records for the Company. For information about McKesson Corporation stock or to request replacement of lost dividend checks, stock certificates, 1099-DIVs, or to have your dividend check deposited directly into your checking or savings account, stockholders may call BNY MELLON Shareowner Services' telephone response center at (866) 216-0306, weekdays 9:00 a.m. to 5:00 p.m., ET. For the hearing impaired call (888) 269-5221. BNY MELLON Shareowner Services also has a Web site: <http://www.melloninvestor.com/isd> – that stockholders may use 24 hours a day to request account information.

Dividends and Dividend Reinvestment Plan

Dividends are generally paid on the first business day of January, April, July and October. McKesson Corporation's Dividend Reinvestment Plan offers stockholders the opportunity to reinvest dividends in common stock and to purchase additional shares of common stock. Stock in an individual's Dividend Reinvestment Plan is held in book entry at the Company's transfer agent, BNY MELLON Shareowner Services. For more information, or to request an enrollment form, call BNY MELLON Shareowner Services' telephone response center at (866) 216-0306. From outside the United States, call +1-201-680-6578.

Annual Meeting

McKesson Corporation's Annual Meeting of Stockholders will be held at 8:30 a.m. PDT, on Wednesday, July 28, 2010 at the Palace Hotel, Twin Peaks Ballroom, 2 New Montgomery Street, San Francisco, California.

Exhibit 31.1

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John H. Hammergren, certify that:

1. I have reviewed this annual report on Form 10-K of McKesson Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2010

/s/ John H. Hammergren
John H. Hammergren
Chairman, President and Chief Executive Officer

Exhibit 31.2

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeffrey C. Campbell, certify that:

1. I have reviewed this annual report on Form 10-K of McKesson Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2010

/s/ Jeffrey C. Campbell
Jeffrey C. Campbell
Executive Vice President and Chief Financial Officer

Exhibit 32

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of McKesson Corporation (the "Company") on Form 10-K for the year ended March 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the dates indicated below, each hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of their knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John H. Hammergren
John H. Hammergren
Chairman, President and Chief Executive Officer
May 4, 2010

/s/ Jeffrey C. Campbell
Jeffrey C. Campbell
Executive Vice President and Chief Financial Officer
May 4, 2010

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002, and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to McKesson Corporation and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

TRIAL EXHIBIT 93

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-13252

McKESSON CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

94-3207296

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

One Post Street, San Francisco, California

94104

(Address of principal executive offices)

(Zip Code)

(415) 983-8300

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

(Title of each class)

(Name of each exchange on which registered)

Common Stock, \$0.01 par value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

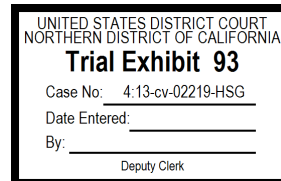
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, September 2010, was approximately \$15.5 billion.

Number of shares of common stock outstanding on April 29, 2011: 252,120,037

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2011 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.



McKESSON CORPORATION

TABLE OF CONTENTS

<u>Item</u>	<u>Page</u>
PART I	
1. Business.....	3
1A. Risk Factors.....	11
1B. Unresolved Staff Comments	22
2. Properties.....	22
3. Legal Proceedings	22
4. Reserved	22
Executive Officers of the Registrant	23
PART II	
5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.....	24
6. Selected Financial Data	27
7. Management's Discussion and Analysis of Financial Condition and Results of Operations	28
7A. Quantitative and Qualitative Disclosures About Market Risk.....	50
8. Financial Statements and Supplementary Data	51
9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	106
9A. Controls and Procedures.....	106
9B. Other Information.....	106
PART III	
10. Directors, Executive Officers and Corporate Governance	107
11. Executive Compensation	107
12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.....	107
13. Certain Relationships and Related Transactions and Director Independence	109
14. Principal Accounting Fees and Services	109
PART IV	
15. Exhibits and Financial Statement Schedule.....	110
Signatures	111

McKESSON CORPORATION

PART I

Item 1. Business

General

McKesson Corporation (“McKesson,” the “Company,” the “Registrant” or “we” and other similar pronouns), is a Fortune 15 corporation that delivers medicines, pharmaceutical supplies, information and care management products and services designed to reduce costs and improve quality across the healthcare industry.

The Company’s fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references in this document to a particular year shall mean the Company’s fiscal year.

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act,”) are available free of charge on our website (www.mckesson.com under the “Investors – Financial Information – SEC Filings” caption) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (“SEC” or the “Commission”). The content on any website referred to in this Annual Report on Form 10-K is not incorporated by reference into this report, unless expressly noted otherwise.

The public may also read or copy any materials that we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers, including the Company, that file electronically with the SEC. The address of the website is <http://www.sec.gov>.

Business Segments

We operate in two segments. The McKesson Distribution Solutions segment distributes ethical and proprietary drugs, medical-surgical supplies and equipment and health and beauty care products throughout North America. This segment also provides specialty pharmaceutical solutions for biotech and pharmaceutical manufacturers, sells financial, operational and clinical solutions for pharmacies (retail, hospital, alternate site) and provides consulting, outsourcing and other services. This segment includes a 49% interest in Nadro, S.A. de C.V. (“Nadro”), one of the leading pharmaceutical distributors in Mexico, and a 39% interest in Parata Systems, LLC (“Parata”), which sells automated pharmacy and supply management systems and services to retail and institutional outpatient pharmacies.

The McKesson Technology Solutions segment delivers enterprise-wide clinical, patient care, financial, supply chain, strategic management software solutions, pharmacy automation for hospitals, as well as connectivity, outsourcing and other services, including remote hosting and managed services, to healthcare organizations. This segment also includes our Payer group of businesses, which includes our InterQual® clinical criteria solution, medical management tools, claims payment solutions and care management programs. The segment’s customers include hospitals, physicians, homecare providers, retail pharmacies and payers from North America, the United Kingdom, Ireland, other European countries and Israel.

Net revenues for our segments for the last three years were as follows:

<i>(Dollars in billions)</i>	2011		2010		2009	
Distribution Solutions	\$ 108.9	97%	\$ 105.6	97%	\$ 103.6	97%
Technology Solutions	3.2	3%	3.1	3%	3.0	3%
Total	\$ 112.1	100%	\$ 108.7	100%	\$ 106.6	100%

McKESSON CORPORATION*Distribution Solutions*

McKesson Distribution Solutions consists of the following businesses: U.S. Pharmaceutical Distribution, McKesson Canada, Medical-Surgical Distribution, McKesson Pharmacy Systems and Automation and McKesson Specialty Care Solutions. This segment also includes our 49% interest in Nadro and 39% interest in Parata.

U.S. Pharmaceutical Distribution: This business supplies pharmaceuticals and/or other healthcare-related products to customers in three primary customer channels: (1) retail national accounts (including national and regional chains, food/drug combinations, mail order pharmacies and mass merchandisers); (2) independent retail pharmacies; and (3) institutional healthcare providers (including hospitals, health systems, integrated delivery networks, clinics and alternate site providers). This business also provides solutions and services to pharmaceutical manufacturers.

Our U.S. pharmaceutical distribution business operates and serves thousands of customer locations through a network of 28 distribution centers, as well as a primary redistribution center, a strategic redistribution center and two repackaging facilities, serving all 50 states and Puerto Rico. We invest in technology and other systems at all of our distribution centers to enhance safety, reliability and provide the best product availability for our customers. For example, in all of our distribution centers we use Acumax® Plus, an award-winning technology that integrates and tracks all internal inventory-related functions such as receiving, put-away and order fulfillment. Acumax® Plus uses bar code technology, wrist-mounted computer hardware and radio frequency signals to provide customers with real-time product availability and industry-leading order quality and fulfillment in excess of 99.9% adjusted accuracy. In addition, we offer Mobile ManagerSM, which integrates portable handheld technology with Acumax® Plus to give customers complete ordering and inventory control. We also offer McKesson ConnectSM, an Internet-based ordering system that provides item lookup and real-time inventory availability as well as ordering, purchasing, third-party reconciliation and account management functionality. Together, these features help ensure customers have the right products at the right time for their facilities and patients.

To maximize distribution efficiency and effectiveness, we follow the Six Sigma methodology — an analytical approach that emphasizes setting high-quality objectives, collecting data and analyzing results to a fine degree in order to improve processes, reduce costs and minimize errors. We continue to implement information systems to help achieve greater consistency and accuracy both internally and for our customers.

The major offerings of the McKesson U.S. Pharmaceutical Distribution business by customer group can be categorized as retail national accounts, independent retail pharmacies and institutional healthcare providers.

Retail National Accounts — Business solutions that help national account customers increase revenues and profitability. Solutions include:

- Central FillSM — Prescription refill service that enables pharmacies to more quickly refill prescriptions remotely, more accurately and at a lower cost, while reducing inventory levels and improving customer service.
- Redistribution Centers — Two facilities totaling over 500 thousand square feet that offer access to inventory for single source warehouse purchasing, including pharmaceuticals and biologicals. These distribution centers also provide the foundation for a two-tiered distribution network that supports best-in-class direct store delivery.
- EnterpriseRx® — A fully integrated and centrally hosted pharmacy management solution (software as a service model). EnterpriseRx® centralizes data, reporting, pricing and drug updates, providing the operational control, visibility and support needed to reduce costs and streamline administrative tasks.
- RxPakSM — Bulk-to-bottle repackaging service that leverages our purchasing scale and supplier relationships to provide pharmaceuticals at reduced prices, help increase inventory turns and reduce working capital investment.
- Inventory Management — An integrated solution comprising forecasting software and automated replenishment technologies that reduce inventory-carrying costs.
- McKesson OneStop Generics® — Generic pharmaceutical purchasing program that helps pharmacies maximize their cost savings with a broad selection of generic drugs, low pricing and one-stop shopping.

McKESSON CORPORATION

Independent Retail Pharmacies — Solutions for managed care contracting, branding and advertising, merchandising, purchasing, operational efficiency and automation that help independent pharmacists focus on patient care while improving profitability. Solutions include:

- **Health Mart®** — Health Mart® is a national network of more than 2,700 independently-owned pharmacies and is one of the industry's most comprehensive pharmacy franchise programs. Health Mart® provides franchisees with managed care that drives pharmacy benefit manager recognition, branding that drives consumer recognition, in-store programs that drive manufacturer and payer recognition and community advocacy programs that drive industry recognition. Health Mart® helps franchisees grow their businesses by focusing on the three principles of successful retailing:
 - Attract new customers;
 - Maximize the value of current customers; and
 - Enhance business efficiency.
- **AccessHealth®** — Comprehensive managed care and reconciliation assistance services that help independent pharmacies save time, access competitive reimbursement rates and improve cash flow.
- **McKesson Reimbursement AdvantageSM (“MRA”)** — MRA is one of the industry's most comprehensive reimbursement optimization packages, comprising financial services (automated claim resubmission), analytic services and customer care.
- **McKesson OneStop Generics®** — described above.
- **EnterpriseRx®** — described above.
- **Sunmark®** — Complete line of more than 1,000 products that provide retail independent pharmacies with value-priced alternatives to national brands.
- **FrontEdgeTM** — Strategic planning, merchandising and price maintenance program that helps independent pharmacies maximize store profitability.
- **McKesson Home Health Care** — Comprehensive line of more than 1,800 home health care products, including durable medical equipment, diabetes supplies, self-care supplies and disposables from national brands and the Sunmark® line.
- **Central FillSM** — described above.

Institutional Healthcare Providers — Electronic ordering/purchasing and supply chain management systems that help customers improve financial performance, increase operational efficiencies and deliver better patient care. Solutions include:

- **McKesson Pharmacy Optimization®** — An experienced group of pharmacy professionals providing consulting services and pharmacy practice resources. McKesson Pharmacy Optimization® develops customized and quantifiable solutions that help hospitals create and sustain financial, operational and clinical results.
- **Fulfill-RxSM** — Ordering and inventory management system that integrates McKesson pharmaceutical distribution services with our automation solutions, thus empowering hospitals to optimize the often complicated and disjointed processes related to unit-based cabinet replenishment and inventory management.
- **Asset Management** — Award-winning inventory optimization and purchasing management program that helps institutional providers lower costs while ensuring product availability.
- **SKY Packaging** — Blister-format packaging containing the most widely prescribed dosages and strengths in generic oral-solid medications. SKY Packaging enables acute care, long-term care and institutional pharmacies to provide cost-effective, uniform packaging.
- **McKesson OneStop Generics®** — Generic pharmaceutical purchasing program that enables acute care pharmacies to capture the full potential of purchasing generic pharmaceuticals. The Long-Term Care OneStop Generics program allows a long-term care pharmacy to capture savings on generic purchases.
- **McKesson 340B Solution Suite** — Solutions that help providers manage, track and report on medication replenishment associated with the federal 340B Drug Pricing Program.
- **High Performance Pharmacy®** — Framework that identifies and categorizes hospital pharmacy best practices to help improve clinical outcomes and financial results. The High Performance Pharmacy Assessment Tool enables hospital pharmacies to measure against comparable institutions and chart a step-by-step path to high performance.

McKESSON CORPORATION

McKesson Canada: McKesson Canada, a wholly-owned subsidiary, is one of the largest pharmaceutical distributors in Canada. McKesson Canada, through its network of 17 distribution centers, provides logistics and distribution to more than 800 manufacturers – delivering their products to retail pharmacies, hospitals, long-term care centers, clinics and institutions throughout Canada. Beyond pharmaceutical distribution, logistics and order fulfillment, McKesson Canada has automated over 2,500 retail pharmacies and is also active in hospital automation solutions, dispensing more than 100 million doses each year. In partnership with other McKesson businesses, McKesson Canada provides a full range of services to Canadian manufacturers and healthcare providers, contributing to the quality and safety of care for patients.

Medical–Surgical Distribution: This business provides medical-surgical supply distribution, equipment, logistics and other services to healthcare providers including physicians’ offices, surgery centers, extended care facilities, homecare and occupational health sites through a network of 28 distribution centers within the U.S. This business is a leading provider of supplies to the full range of alternate-site healthcare facilities, including physicians’ offices, clinics and surgery centers (primary care), long-term care, occupational health facilities and homecare sites (extended care). Through a variety of technology products and services geared towards the supply chain, our Medical-Surgical Distribution business is focused on helping its customers operate more efficiently while providing one of the industry’s most extensive product offerings, including our own private label line. This business also includes ZEE® Medical, one of the most extensive product offerings in the industry of first aid, safety and training solutions, providing services to industrial and commercial customers. This business offers an extensive line of products and services aimed at maximizing productivity and minimizing the liability and cost associated with workplace illnesses and injuries.

McKesson Pharmacy Systems and Automation: This business supplies integrated pharmacy management systems, automated dispensing systems and related services to retail, outpatient, central fill, specialty and mail order pharmacies. Its primary offering is EnterpriseRx®, a fully integrated and centrally hosted pharmacy management solution (software as a service model). EnterpriseRx® centralizes data, reporting, pricing and drug updates, providing the operational control, visibility and support needed to reduce costs and streamline administrative tasks. We also own a 39% interest in Parata, which sells automated pharmacy and supply management systems and services to retail and institutional pharmacies.

McKesson Specialty Care Solutions: This business provides solutions for patients with complex diseases and advances specialty care by facilitating collaboration among healthcare providers, drug manufacturers and payers through our expertise in specialty drug distribution and commercialization support. The business provides direct-to-physician specialty distribution services ensuring specialty drugs are received in manufacturer recommended conditions. This business also offers our industry leading Lynx® integrated technologies and clinical tools, which help provider organizations to improve their inventory management, business efficiencies and reimbursement processes. The business also works with manufacturers to optimize delivery of complex medication to patients through custom distribution and safety programs that support appropriate product utilization, as well as the development and management of reimbursement and patient access programs that help patients to gain cost effective access to needed therapies. On December 30, 2010, we acquired US Oncology Holdings, Inc. (“US Oncology”) of The Woodlands, Texas, an integrated oncology company, which expands our existing specialty pharmaceutical distribution business and adds practice management services for oncologists. US Oncology is affiliated with community-based oncologists, and works with patients, hospitals, payers and the broader medical industry across all phases of the cancer research and delivery continuum.

Technology Solutions

Our Technology Solutions segment provides a comprehensive portfolio of software, automation, support and services to help healthcare organizations improve quality and patient safety, reduce the cost and variability of care and better manage their resources and revenue stream. This segment also includes our InterQual® clinical criteria solution, medical management tools, claims payment solutions and care management programs. Technology Solutions markets its products and services to integrated delivery networks, hospitals, physician practices, home healthcare providers, retail pharmacies and payers. Our solutions and services are sold internationally through subsidiaries and/or distribution agreements in Canada, the United Kingdom, Ireland, other European countries and Israel.

McKESSON CORPORATION

The product portfolio for the Technology Solutions segment is designed to address a wide array of healthcare clinical and business performance needs ranging from medication safety and information access to revenue cycle management, resource utilization and physician adoption of electronic health records (“EHR”). Analytics software enables organizations to measure progress as they automate care processes for optimal clinical outcomes, business and operating results and regulatory compliance. To ensure that organizations achieve the maximum value for their information technology investment, we also offer a wide range of services to support the implementation and use of solutions as well as assist with business and clinical redesign, process re-engineering and staffing (both information technology and back-office).

Key solution areas are as follows:

Clinical and financial management: We provide comprehensive clinical and financial information systems for hospitals and health systems of all sizes. These systems are designed to improve the safety and quality of patient care and improve clinical, financial and operational performance. Clinical functionality includes a data repository, care planning, physician order entry and documentation, nursing documentation with bar-coded medication administration, laboratory, radiology, pharmacy, surgical management, emergency department and ambulatory EHR systems, a Web-based physician portal and a comprehensive solution for homecare. Revenue management solutions are designed to improve financial performance by reducing days in accounts receivable, preventing insurance claim denials, reducing costs and improving productivity. Solutions include online patient billing, contract management, electronic claims processing and coding compliance checking. These solutions streamline patient access and help organizations to forecast financial responsibility for constituents before and during care, allowing providers to collect their reimbursements more quickly and at a lower cost.

Enterprise imaging: In addition to document imaging to facilitate maintenance and access to complete medical records, we offer medical imaging and information management systems for healthcare enterprises, including a picture archiving communications system, a radiology information system and a comprehensive cardiovascular information system. Our enterprise-wide approach to medical imaging enables organizations to take advantage of specialty-specific workstations while building an integrated image repository that manages all of the images and information captured throughout the care continuum.

Performance management: Performance management solutions are designed to enhance an organization’s ability to plan and optimize quality care delivery. Enterprise visibility and performance analytics provide business intelligence that enables providers to manage capacity, outcomes, productivity and patient flow. Workforce management solutions assist caregivers with staffing and maintaining labor rule continuity between scheduling, time and attendance and payroll. A comprehensive supply chain management solution integrates enterprise resource planning applications, including financials, materials, human resources/payroll, with scheduling, point of use, surgical and anesthesia services and enterprise-wide analytics.

Automation: Automation solutions include technologies that help hospitals re-engineer and improve their medication use processes. Examples include centralized pharmacy automation for dispensing unit-dose medications, unit-based cabinet technologies for secure medication storage and rapid retrieval and an anesthesia cart for dispensing of medications in the operating room. Based on a foundation of bar-code scanning technology, these integrated solutions are designed to reduce errors and bring new levels of safety to patients.

Physician practice solutions: We provide a complete solution for physician practices of all sizes that includes software, revenue cycle outsourcing and connectivity services. Software solutions include practice management and EHR software for physicians of every size and specialty. Our physician practice offering also includes outsourced billing and collection services as well as services that connect physicians with their patients, hospitals, retail pharmacies and payers. Revenue cycle outsourcing enables physician groups to avoid the infrastructure investment and administrative costs of an in-house billing office. Services include clinical data collection, data input, medical coding, billing, contract management, cash collections, accounts receivable management and extensive reporting of metrics related to the physician practice.

McKESSON CORPORATION

Connectivity: Through our vendor-neutral RelayHealth® and its intelligent network, the Company provides health information exchange and revenue cycle management solutions that streamline clinical, financial and administrative communication between patients, providers, payers, pharmacies, manufacturers, government and financial institutions. RelayHealth® helps to accelerate the delivery of high-quality care and improve financial performance through online consultation of physicians by patients, electronic prescribing by physicians, point-of-service resolution of pharmacy claims by payers, pre-visit financial clearance of patients by providers and post-visit settlement of provider bills by payers and patients. RelayHealth® securely processes more than 14.8 billion financial and clinical transactions annually.

In addition to the product offerings described above, Technology Solutions offers a comprehensive range of services to help organizations derive greater value, enhance satisfaction and return on investment throughout the life of the solutions implemented. The range of services includes:

Technology Services: Technology services supports the smooth operation of numerous organizations' information systems by providing the technical infrastructure designed to maximize application accessibility, availability, security and performance.

Outsourcing Services: With these services, we help providers focus their resources on healthcare while their information technology or operations are supported through managed services, including outsourcing. Service options include remote hosting, managing hospital data processing operations, as well as strategic information systems planning and management, revenue cycle processes, payroll processing, business office administration and major system conversions.

Professional Services: Professional services help customers achieve business results from their software or automation investment. A wide array of service options is available, including consulting for business and/or clinical process improvement and re-design as well as implementation, project management, technical and education services relating to all products in the Technology Solutions segment.

Payer Group: The following suite of services and software products is marketed to payers, hospitals and government organizations to help manage the cost and quality of care:

- Disease management programs to improve the health status and health outcomes of patients with chronic conditions;
- Nurse advice services to provide health information and recommend appropriate levels of care;
- Clinical and analytical software to support utilization, case and disease management workflows;
- Business intelligence tools for measuring, reporting and improving clinical and financial performance;
- InterQual® Criteria for clinical decision support and utilization management; and
- Claims payment solutions to facilitate accurate and efficient medical claim payments.

Business Combinations and Discontinued Operation

We have undertaken strategic initiatives in recent years designed to further focus on our core healthcare businesses and enhance our competitive position. We expect to continue to undertake such strategic initiatives in the future. These initiatives are detailed in Financial Notes 2 and 6, "Business Combinations" and "Discontinued Operation," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Competition

In every area of healthcare distribution operations, our Distribution Solutions segment faces strong competition, both in price and service, from national, regional and local full-line, short-line and specialty wholesalers, service merchandisers, self-warehousing chains, manufacturers engaged in direct distribution, third-party logistics companies and large payer organizations. In addition, this segment faces competition from various other service providers and from pharmaceutical and other healthcare manufacturers as well as other potential customers of the segment, which may from time-to-time decide to develop, for their own internal needs, supply management capabilities that would otherwise be provided by the segment. Price, quality of service, and in some cases, convenience to the customer are generally the principal competitive elements in this segment.

McKESSON CORPORATION

Our Technology Solutions segment experiences substantial competition from many firms, including other software services firms, consulting firms, shared service vendors, certain hospitals and hospital groups, payers, care management organizations, hardware vendors and internet-based companies with technology applicable to the healthcare industry. Competition varies in size from small to large companies, in geographical coverage and in scope and breadth of products and services offered.

Intellectual Property

The principal trademarks and service marks of the Distribution Solutions segment include: AccessHealth®, Acumax®, Central FillSM, Closed Loop DistributionSM, CypressSM, Cypress Plus®, Edwards Medical Supply®, Empowering Healthcare®, EnterpriseRx®, Expect More From MooreSM, FrontEdge™, Fulfill-RxSM, Health Mart®, High Performance Pharmacy®, LoyaltyScript®, Lynx®, Max Impact®, McKesson®, McKesson AdvantageSM, McKesson ConnectSM, McKesson Empowering Healthcare®, McKesson High Volume SolutionsSM, McKesson Max Rewards®, McKesson OneStop Generics®, McKesson Pharmacy CentralSM, McKesson Pharmacy Optimization®, McKesson Priority Express OTCSM, McKesson Reimbursement AdvantageSM, McKesson Supply ManagerSM, MediNet™, Medi-Pak®, Mobile ManagerSM, Moore Medical®, Moorebrand®, Northstarx®, Onmark®, OTN®, Pharma360®, PharmacyRx™, Pharmaserv®, RX PakSM, RxOwnership®, ServiceFirstSM, Staydry®, Sterling Medical Services®, Sunmark®, The Supply Experts®, Supply Management OnlineSM, TrialScript®, Valu-Rite®, XVIII B Medi Mart®, Zee Medical Service®, ZEE®, US Oncology®, United We WinSM, Triangle Design®, AccessMed®, OncologyRx Care Advantage®, Oncology TodaySM, Nexcura®, Innovent®, Comprehensive Strategic Alliance (CSA)SM, Advancing Cancer Care in America®, iKnowMedSM, Accessmed®, CaresRxSM, Research & Education®, Heal Living Well After Cancer®, Heart Profilers & Design®, Iknowchart™, Oncology Today Translating Knowledge Into Cancer Care®, Radmap™, Selectplus Oncology®, US Cancer AllianceSM, and Market FocusSM.

The substantial majority of technical concepts and codes embodied in our Technology Solutions segment's computer programs and program documentation are protected as trade secrets. The principal trademarks and service marks for this segment are: AcuDose-Rx®, ANSOS One-Staff™, Ask-A-Nurse®, Care Fully Connected™, CareEnhance®, Connect-RN™, Connect-Rx®, CRMS™, DataStat®, ePremis®, Episode Profiler™, E-Script™, Fulfill-RxSM, HealthQuest™, Horizon Admin-Rx™, Horizon Clinicals®, Horizon Enterprise Revenue Management™, HorizonWP®, InterQual®, Lytec®, MedCarousel®, Medisoft®, ORSOS One-Call™, PACMED™, PakPlus-Rx™, Paragon®, Pathways 2000®, Patterns Profiler™, Per-Se™, Per-Se Technologies®, PerYourHealth.com®, Practice Partner®, Premis®, ProIntercept®, ProMed®, ProPBM®, RelayHealth®, ROBOT-Rx®, SelfPace®, Series 2000™, STAR 2000™, SupplyScan™, TRENDSTAR® and WebVisit™.

We also own other registered and unregistered trademarks and service marks and similar rights used by our business segments. Many of the principal trademarks and service marks are registered in the United States, or registrations have been applied for with respect to such marks, in addition to certain other jurisdictions. The United States federal registrations of these trademarks have terms of ten or twenty years, depending on date of registration, and are subject to unlimited renewals. We believe that we have taken all necessary steps to preserve the registration and duration of our trademarks and service marks, although no assurance can be given that we will be able to successfully enforce or protect our rights thereunder in the event that they are subject to third-party infringement claims. We do not consider any particular patent, license, franchise or concession to be material to our business. We also hold copyrights in, and patents related to, many of our products.

Other Information about the Business

Customers: During 2011, sales to our ten largest customers accounted for approximately 51% of our total consolidated revenues. Sales to our two largest customers, CVS Caremark Corporation ("CVS") and Rite Aid Corporation ("Rite Aid"), accounted for approximately 14% and 11% of our total consolidated revenues. At March 31, 2011, accounts receivable from our ten largest customers were approximately 43% of total accounts receivable. Accounts receivable from CVS, Wal-Mart Stores, Inc. ("Walmart") and Rite Aid were approximately 13%, 10% and 9% of total accounts receivable. Substantially all of these revenues and accounts receivable are included in our Distribution Solutions segment.

McKESSON CORPORATION

Suppliers: We obtain pharmaceutical and other products from manufacturers, none of which accounted for more than approximately 7% of our purchases in 2011. The loss of a supplier could adversely affect our business if alternate sources of supply are unavailable. We believe that our relationships with our suppliers on the whole are good. The ten largest suppliers in 2011 accounted for approximately 47% of our purchases.

A significant portion of our distribution arrangements with the manufacturers provides us compensation based on a percentage of our purchases. In addition, we have certain distribution arrangements with branded pharmaceutical manufacturers that include an inflation-based compensation component whereby we benefit when the manufacturers increase their prices as we sell our existing inventory at the new higher prices. For these manufacturers, a reduction in the frequency and magnitude of price increases, as well as restrictions in the amount of inventory available to us, could have a material adverse impact on our gross profit margin.

Research and Development: Our development expenditures primarily consist of our investment in software held for sale. We spent \$471 million, \$451 million and \$438 million for development activities in 2011, 2010 and 2009 and of these amounts, we capitalized 14%, 17% and 17%. Development expenditures are primarily incurred by our Technology Solutions segment. Our Technology Solutions segment's product development efforts apply computer technology and installation methodologies to specific information processing needs of hospitals and other customers. We believe that a substantial and sustained commitment to such expenditures is important to the long-term success of this business. Additional information regarding our development activities is included in Financial Note 1, "Significant Accounting Policies," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Environmental Regulation: Our operations are subject to regulation under various federal, state, local and foreign laws concerning the environment, including laws addressing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. We could incur substantial costs, including cleanup costs, fines and civil or criminal sanctions and third-party damage or personal injury claims, if in the future we were to violate or become liable under environmental laws.

We are committed to maintaining compliance with all environmental laws applicable to our operations, products and services and to reducing our environmental impact across all aspects of our business. We meet this commitment through an environmental strategy and sustainability program.

We sold our chemical distribution operations in 1987 and retained responsibility for certain environmental obligations. Agreements with the Environmental Protection Agency and certain states may require environmental assessments and cleanups at several closed sites. These matters are described further in Financial Note 17, "Other Commitments and Contingent Liabilities," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

The liability for environmental remediation and other environmental costs is accrued when the Company considers it probable and can reasonably estimate the costs. Environmental costs and accruals, including that related to our legacy chemical distribution operations, are presently not material to our operations or financial position. Although there is no assurance that existing or future environmental laws applicable to our operations or products will not have a material adverse impact on our operations or financial condition, we do not currently anticipate material capital expenditures for environmental matters. Other than the expected expenditures that may be required in connection with our legacy chemical distribution operations, we do not anticipate making substantial capital expenditures either for environmental issues, or to comply with environmental laws and regulations in the future. The amount of our capital expenditures for environmental compliance was not material in 2011 and is not expected to be material in the next year.

Employees: On March 31, 2011, we employed approximately 36,400 persons compared to 32,500 on March 31, 2010 and 2009.

Financial Information About Foreign and Domestic Operations: Information as to foreign and domestic operations is included in Financial Notes 1 and 20, "Significant Accounting Policies" and "Segments of Business," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

McKESSON CORPORATION**Forward-Looking Statements**

This Annual Report on Form 10-K, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of Part II of this report and the “Risk Factors” in Item 1A of Part I of this report, contains forward-looking statements within the meaning of section 27A of the Securities Act of 1933, as amended and section 21E of the Securities Exchange Act of 1934, as amended. Some of these statements can be identified by use of forward-looking words such as “believes,” “expects,” “anticipates,” “may,” “will,” “should,” “seeks,” “approximately,” “intends,” “plans” or “estimates,” or the negative of these words, or other comparable terminology. The discussion of financial trends, strategy, plans or intentions may also include forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected, anticipated, or implied. Although it is not possible to predict or identify all such risks and uncertainties, they may include, but are not limited to, the factors discussed in Item 1A of Part I of this report under “Risk Factors.” The reader should not consider the list to be a complete statement of all potential risks and uncertainties.

These and other risks and uncertainties are described herein and in other information contained in our publicly available SEC filings and press releases. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date such statements were first made. Except to the extent required by federal securities laws, we undertake no obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof, or to reflect the occurrence of unanticipated events.

Item 1A. Risk Factors

The risks described below could have a material adverse impact on our financial position, results of operations, liquidity and cash flows. Although it is not possible to predict or identify all such risks and uncertainties, they may include, but are not limited to, the factors discussed below. Our business operations could also be affected by additional factors that are not presently known to us or that we currently consider not to be material to our operations. The reader should not consider this list to be a complete statement of all risks and uncertainties.

We are subject to legal proceedings that could have a material adverse impact on our financial position and results of operations.

From time-to-time and in the ordinary course of our business, we and certain of our subsidiaries may become involved in various legal proceedings involving antitrust, commercial, employment, environmental, intellectual property, regulatory, tort and other various claims. All such legal proceedings are inherently unpredictable, and the outcome can result in excessive verdicts and/or injunctive relief that may affect how we operate our business or we may enter into settlements of claims for monetary damages. In some cases, substantial non-economic remedies or punitive damages may be sought. For some complaints filed against the Company, we are currently unable to estimate the amount of possible losses that might be incurred should these legal proceedings be resolved against the Company.

The outcome of litigation and other legal matters is always uncertain and outcomes that are not justified by the evidence or existing law can occur. The Company believes that it has valid defenses to the legal matters pending against it and is defending itself vigorously. Nevertheless, it is possible that resolution of one or any combination of more than one legal matter could result in a material adverse impact on our financial position or results of operations. For example, we are involved in a number of legal proceedings described in Financial Note 17, “Other Commitments and Contingent Liabilities,” to the accompanying consolidated financial statements that could have such an impact, including class actions and other legal proceedings alleging that we engaged in illegal conduct that caused average wholesale prices to rise for certain prescription drugs during specified periods.

Litigation is costly, time-consuming and disruptive to normal business operations. The defense of these matters could also result in continued diversion of our management’s time and attention away from business operations, which could also harm our business. Even if these matters are not resolved against us, the uncertainty and expense associated with unresolved legal proceedings could harm our business and reputation. For additional information regarding certain of the legal proceedings in which we are involved, see Financial Note 17, “Other Commitments and Contingent Liabilities,” to the accompanying consolidated financial statements.

McKESSON CORPORATION

Changes in the United States healthcare industry and regulatory environment could have a material adverse impact on our results of operations.

Our products and services are primarily intended to function within the structure of the healthcare financing and reimbursement system currently being used in the United States. In recent years, the healthcare industry in the United States has changed significantly in an effort to reduce costs. These changes have included increased use of managed care, cuts in Medicare and Medicaid reimbursement levels, consolidation of pharmaceutical and medical-surgical supply distributors and the development of large, sophisticated purchasing groups. We expect the healthcare industry in the United States to continue to change and for healthcare delivery models to evolve in the future.

Changes in the healthcare industry's or our pharmaceutical suppliers' pricing, selling, inventory, distribution or supply policies or practices could significantly reduce our revenues and net income. Due to the diverse range of healthcare supply management and healthcare information technology products and services that we offer, such changes could have a material adverse impact on our results of operations, while not affecting some of our competitors who offer a narrower range of products and services.

The majority of our U.S. pharmaceutical distribution business' agreements with manufacturers are structured to ensure that we are appropriately and predictably compensated for the services we provide; however, failure to successfully renew these contracts in a timely and favorable manner could have a material adverse impact on our results of operations. In addition, branded price inflation can be the partial economic basis of some of our distribution business agreements with pharmaceutical manufacturers. If the frequency or rate of branded price increases slows, it could have a material adverse impact on our results of operations.

In addition, we also distribute generic pharmaceuticals, which can be subject to both price deflation and price inflation. Healthcare and public policy trends indicate that the number of generic drugs will increase over the next few years as a result of the expiration of certain drug patents. In recent years, our financial results have improved from our generic drug offerings. An increase or a decrease in the availability or changes in pricing trends or reimbursement of these generic drugs could have a material adverse impact on our results of operations.

Generic drug manufacturers are increasingly challenging the validity or enforceability of patents on branded pharmaceutical products. During the pendency of these legal challenges, a generics manufacturer may begin manufacturing and selling a generic version of the branded product prior to the final resolution to its legal challenge over the branded product's patent. To the extent we source and distribute such generic products launched "at risk," the brand-name company could assert infringement claims against us. While we generally obtain indemnification against such claims from generic manufacturers as a condition of distributing their products, there can be no assurances that these rights will be adequate or sufficient to protect us.

In recent years, the pharmaceutical suppliers have been subject to increasing consolidation. As a result, a small number of very large companies control a significant share of the market. Accordingly, we depend on fewer suppliers for our products and therefore we may be less able to negotiate price terms with suppliers.

Many healthcare organizations also have consolidated to create larger healthcare enterprises with greater market power. If this consolidation trend continues, it could reduce the size of our target market and give the resulting enterprises greater bargaining power, which may lead to erosion of the prices for our products and services. In addition, when healthcare organizations combine they often consolidate infrastructure including IT systems, which in turn may erode our customer and revenue base.

The healthcare industry is highly regulated, and further regulation of our distribution businesses and computer-related products and services could impose increased costs, negatively impact our profit margins and the profit margins of our customers, delay the introduction or implementation of our new products, or otherwise negatively impact our business and expose the Company to litigation and regulatory investigations.

McKESSON CORPORATION

Healthcare Fraud: We are subject to extensive and frequently changing local, state and federal laws and regulations relating to healthcare fraud, and the federal government continues to strengthen its position and scrutiny over practices involving fraud affecting Medicare, Medicaid and other government healthcare programs. Our relationships with pharmaceutical and medical-surgical product manufacturers and healthcare providers, as well as our provision of products and services to government entities, subject our business to laws and regulations on fraud and abuse, which among other things (1) prohibit persons from soliciting, offering, receiving or paying any remuneration in order to induce the referral of a patient for treatment or for inducing the ordering or purchasing of items or services that are in any way paid for by Medicare, Medicaid or other government-sponsored healthcare programs, (2) impose a number of restrictions upon referring physicians and providers of designated health services under Medicare and Medicaid programs, and (3) prohibit the knowing submission of a false or fraudulent claim for payment to a federal health care program such as Medicare and Medicaid. Many of the regulations applicable to us, including those relating to marketing incentives, are vague or indefinite and have not been interpreted by the courts. They may be interpreted or applied by a prosecutorial, regulatory, or judicial authority in a manner that could require us to make changes in our operations. If we fail to comply with applicable laws and regulations, we could suffer civil and criminal penalties, including the loss of licenses or our ability to participate in Medicare, Medicaid and other federal and state healthcare programs.

Reimbursements: Both our profit margins and the profit margins of our customers may be adversely affected by laws and regulations reducing reimbursement rates for pharmaceuticals, medical treatments and related services, or changing the methodology by which reimbursement levels are determined. For example, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively the “Affordable Care Act”), signed into law in 2010, revised the federal upper limits for Medicaid reimbursement for multiple source generic drugs available for purchase by retail community pharmacies on a nationwide basis to a limit of not less than 175% of the weighted average (determined on the basis of utilization) of the most recently reported monthly average manufacturer price (“AMP”) using a smoothing process. In addition, Medicare, Medicaid and the State Children’s Health Insurance Program (“CHIP”) Extension Act of 2007 requires the Centers for Medicare and Medicaid Services (“CMS”) to adjust the calculation of the Medicare Part B drug average sales price (“ASP”) to an actual sales volume basis. We expect that the use of an AMP benchmark and the revised ASP calculations would result in a reduction in the Medicaid reimbursement rates to our customers for certain generic pharmaceuticals, which could indirectly impact the prices that we can charge our customers and cause corresponding declines in our profitability. There can be no assurance that these changes would not have a material adverse impact on our results of operations.

Operating, Security and Licensure Standards: We are subject to the operating and security standards of the Drug Enforcement Administration (the “DEA”), the Food and Drug Administration (“FDA”), various state boards of pharmacy, state health departments, the U.S. Department of Health and Human Services (“HHS”), the CMS and other comparable agencies. Certain of our businesses may be required to register for permits and/or licenses with, and comply with operating and security standards of the DEA, FDA, HHS, CMS, various state boards of pharmacy, state health departments and/or comparable state agencies as well as foreign agencies and certain accrediting bodies, depending upon the type of operations and location of product distribution, manufacturing and sale. As part of these operating, security and licensure standards, we regularly receive requests for information and occasionally subpoenas from government authorities. Although we believe that we are in compliance in all material respects with applicable laws and regulations, there can be no assurance that a regulatory agency or tribunal would not reach a different conclusion concerning the compliance of our operations with applicable laws and regulations. In addition, there can be no assurance that we will be able to maintain or renew existing permits, licenses or any other regulatory approvals or obtain without significant delay future permits, licenses or other approvals needed for the operation of our businesses. Any noncompliance by us with applicable laws and regulations or the failure to maintain, renew or obtain necessary permits and licenses could have a material adverse impact on our results of operations.

Pedigree Tracking: There have been increasing efforts by various levels of government agencies, including state boards of pharmacy and comparable government agencies, to regulate the pharmaceutical distribution system in order to prevent the introduction of counterfeit, adulterated and/or mislabeled drugs into the pharmaceutical distribution system (“pedigree tracking”). Certain states have adopted or are considering laws and regulations that are intended to protect the integrity of the pharmaceutical distribution system, while other government agencies are currently evaluating their recommendations. For example, Florida has adopted pedigree tracking requirements and California has enacted a law requiring chain of custody technology using radio frequency tagging and electronic pedigrees, which will be effective for us in July 2016.

McKESSON CORPORATION

Final regulations under the federal Prescription Drug Marketing Act requiring pedigree and chain of custody tracking in certain circumstances became effective December 1, 2006. This latter regulation has been challenged in a case brought by secondary distributors. A preliminary injunction was issued by the United States District Court for the Eastern District of New York that temporarily enjoined implementation of this regulation. This injunction was affirmed by the Court of Appeals for the Second Circuit in July 2008. In December 2008, both parties agreed to delay this litigation, pending the outcome of certain U.S. congressional legislative initiatives. In addition, the Food and Drug Administration Amendments Act of 2007 ("FDAA"), which went into effect on October 1, 2007, requires the FDA to establish standards and identify and validate effective technologies for the purpose of securing the pharmaceutical supply chain against counterfeit drugs. These standards may include any track-and-trace or authentication technologies, such as radio frequency identification devices and other similar technologies. On March 26, 2010, the FDA released the Serialized Numerical Identifier ("SNI") guidance for manufacturers who serialize pharmaceutical packaging. We expect to be able to accommodate these SNI regulations in our distribution operations. Nonetheless, these pedigree tracking laws and regulations could increase the overall regulatory burden and costs associated with our pharmaceutical distribution business, and could have a material adverse impact on our results of operations.

Privacy: State, federal and foreign laws regulate the confidentiality of sensitive personal information, how that information may be used, and the circumstances under which such information may be released. These regulations govern the disclosure and use of confidential personal and patient medical record information and require the users of such information to implement specified privacy and security measures. Regulations currently in place, including regulations governing electronic health data transmissions, continue to evolve and are often unclear and difficult to apply. Although our policies, procedures and systems are being updated and modified to comply with the current requirements of applicable state and foreign laws, including the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") and the Health Information Technology for Economic and Clinical Health ("HITECH") Act portion of the American Recovery and Reinvestment Act ("ARRA") of 2009, evolving laws and regulations in this area could restrict the ability of our customers to obtain, use or disseminate patient information, or it could require us to incur significant additional costs to re-design our products in a timely manner, either of which could have a material adverse impact on our results of operations. In addition, the HITECH Act expanded HIPAA privacy and security requirements and increased financial penalties for violations. It also extended certain provisions of the federal privacy and security standards to us in our capacity as a business associate of our payer and provider customers. These standards may be interpreted by a regulatory authority in a manner that could require us to make a material change to our operations. Furthermore, failure to maintain confidentiality of sensitive personal information in accordance with applicable regulatory requirements could expose us to breach of contract claims, fines and penalties, costs for remediation and harm to our reputation.

Health Care Reform: The Affordable Care Act significantly expanded health insurance coverage to uninsured Americans and changed the way health care is financed by both governmental and private payers. Further federal and state proposals for healthcare reform are likely. While we do not currently anticipate that the Affordable Care Act will have a material impact on our business, financial condition and results of operations, given the scope of the changes made and the uncertainties associated with its implementation, we cannot predict its full impact on the Company at this time.

Interoperability Standards: There is increasing demand among customers, industry groups and government authorities that healthcare software and systems provided by various vendors be compatible with each other. This need for interoperability is leading to the development of standards by various groups, and certain federal and state agencies are also developing standards that could become mandatory for systems purchased by these agencies. For example, the HITECH Act requires meaningful use of "certified" healthcare information technology products by healthcare providers in order to receive stimulus funds from the federal government. Effective September 27, 2010, CMS issued a rule that utilizes a staged approach for defining meaningful use criteria. In "Stage 1," CMS defined the initial criteria for meaningful use, and has stated that it intends to update these initial criteria with additional "Stage 2" criteria by the end of calendar 2011, and with additional "Stage 3" criteria by the end of calendar 2013. We may incur increased development costs and delays in upgrading our customer software and systems to be in compliance with these varying and evolving standards. In addition, these new standards may lengthen our sales and implementation cycle and we may incur costs in periods prior to the corresponding recognition of revenue. To the extent these standards are narrowly construed or delayed in publication, or that we are delayed in achieving certification under these evolving standards for applicable products, our customers may postpone or cancel their decisions to purchase or implement our software and systems.

McKESSON CORPORATION

FDA Regulation of Computer Products. The FDA has increasingly focused on the regulation of computer products and computer-assisted products as medical devices under the federal Food, Drug and Cosmetic Act. For example, effective April 18, 2011, the FDA issued a new rule regulating certain computer data systems as medical devices. If the FDA chooses to regulate any of our products as medical devices, it can impose extensive requirements upon us. If we fail to comply with the applicable requirements, the FDA could respond by imposing fines, injunctions or civil penalties, requiring recalls or product corrections, suspending production, refusing to grant pre-market clearance of products, withdrawing clearances and initiating criminal prosecution. Any additional FDA regulations governing computer products, once issued, may increase the cost and time to market new or existing products or may prevent us from marketing our products.

Standards for Submission of Health Care Claims: HHS has adopted two new rules that impact healthcare claims submitted for reimbursement. In the first rule, effective January 1, 2012, HHS has modified the standards for electronic health care transactions (*e.g.*, eligibility, claims submission and payment and electronic remittance) from Version 4010/4010A to Version 5010. In the second rule, effective October 1, 2013, HHS has updated and expanded the standard medical code sets for diagnosis and procedure coding from International Classification of Diseases, Ninth Revision (“ICD-9”) to International Classification of Diseases, Tenth Revision (“ICD-10”). Updating systems to Version 5010 is required for use of the ICD-10 code set. Generally, claims submitted not using Version 5010 and ICD-10 when required will not be processed, and health plans not accepting transactions using Version 5010 and ICD-10 may experience significant increases in customer service inquiries. We may incur increased development costs and delays in delivering solutions and upgrading our software and systems to be in compliance with these new standards. In addition, these standards may lengthen our sales and implementation cycle and we may incur costs in periods prior to the corresponding recognition of revenue. Delays in providing software and systems that are in compliance with the new standards may result in postponement or cancellation of our customers’ decisions to purchase our software and systems.

Claims Transmissions: Medical billing and collection activities are governed by numerous federal and state civil and criminal laws that pertain to companies that provide billing and collection services, or that provide consulting services in connection with billing and collection activities. In connection with these laws, we may be subjected to federal or state government investigations and possible penalties may be imposed upon us, false claims actions may have to be defended, private payers may file claims against us and we may be excluded from Medicare, Medicaid or other government-funded healthcare programs. Any such proceeding or investigation could have a material adverse impact on our results of operations.

Changes in the Canadian healthcare industry and regulatory environment could have a material adverse impact on our results of operations.

The provincial governments in Canada provide partial funding for the purchase of pharmaceuticals and independently regulate the sale and reimbursement of drugs. Similar to the United States, the Canadian healthcare industry has undergone significant changes in recent years in an effort to reduce program costs. For example, in 2006 the Ontario government significantly revised the drug reimbursement system with the passage of the Transparent Drug System for Patients Act. In recent years, to reduce the cost for taxpayers, various provinces took further steps to reform the rules regarding the sale of generic drugs. These changes include the significant lowering of prices for generic pharmaceuticals and, in some provinces, the elimination or reduction of professional allowances paid to pharmacists by generic manufacturers. These reforms may adversely affect the distribution of drugs as well as the pricing for prescription drugs for the Company’s operations in Canada. Other provinces are considering similar changes, which would also lower pharmaceutical pricing and service fees. Individually or in combination, such changes in the Canadian healthcare environment may significantly reduce our Canadian revenue and operating profit.

McKESSON CORPORATION***Competition may erode our profit.***

In every area of healthcare distribution operations, our Distribution Solutions segment faces strong competition, both in price and service, from national, regional and local full-line, short-line and specialty wholesalers, service merchandisers, self-warehousing chains, manufacturers engaged in direct distribution, third-party logistics companies and large payer organizations. In addition, this segment faces competition from various other service providers and from pharmaceutical and other healthcare manufacturers as well as other potential customers of the segment, which may from time-to-time decide to develop, for their own internal needs, supply management capabilities that would otherwise be provided by the segment. Price, quality of service, and in some cases, convenience to the customer are generally the principal competitive elements in this segment.

Our Technology Solutions segment experiences substantial competition from many firms, including other software services firms, consulting firms, shared service vendors, certain hospitals and hospital groups, payers, care management organizations, hardware vendors and internet-based companies with technology applicable to the healthcare industry. Competition varies in size from small to large companies, in geographical coverage and in scope and breadth of products and services offered. These competitive pressures could have a material adverse impact on our results of operations.

A material reduction in purchases or the loss of a large customer or group purchasing organization, as well as substantial defaults in payment by a large customer or group purchasing organization, could have a material adverse impact on our financial condition, results of operations and liquidity.

In recent years, a significant portion of our revenue growth has been with a limited number of large customers. During 2011, sales to our ten largest customers accounted for approximately 51% of our total consolidated revenues. Sales to our two largest customers, CVS and Rite Aid, accounted for approximately 14% and 11% of our total consolidated revenues. At March 31, 2011, accounts receivable from our ten largest customers were approximately 43% of total accounts receivable. Accounts receivable from CVS, Walmart and Rite Aid were approximately 13%, 10% and 9% of total accounts receivable. As a result, our sales and credit concentration is significant. We also have agreements with group purchasing organizations (“GPOs”), each of which functions as a purchasing agent on behalf of member hospitals, pharmacies and other healthcare providers, as well as with government entities and agencies. A material default in payment, change in our customer mix, reduction in purchases, or the loss of a large customer or GPO could have a material adverse impact on our financial condition, results of operations and liquidity.

We generally sell our products and services to customers on credit that is short-term in nature and unsecured. Any adverse change in general economic conditions can adversely reduce sales to our customers, affect consumer buying practices or cause our customers to delay or be unable to pay accounts receivable owed to us, which may in turn materially reduce our revenue growth and cause a material decrease in our profitability and cash flow. Further, interest rate fluctuations and changes in capital market conditions may also affect our customers’ ability to obtain credit to finance their business under acceptable terms, which in turn may materially reduce our revenue growth and cause a decrease in our profitability.

Contracts with the U.S. federal government and other governments and their agencies pose additional risks relating to future funding and compliance.

Contracts with the U.S. federal government and other governments and their agencies are subject to various uncertainties, restrictions and regulations, including oversight audits by various government authorities and profit and cost controls. Government contracts also are exposed to uncertainties associated with funding. Contracts with the U.S. federal government, for example, are subject to the uncertainties of Congressional funding. Governments are typically under no obligation to maintain funding at any specific level, and funds for government programs may even be eliminated. As a result, our government clients may terminate our contracts for convenience or decide not to renew our contracts with little or no prior notice. The loss of such contracts could have a material adverse impact on our results of operations.

McKESSON CORPORATION

In addition, since government contracts are subject to specific procurement regulations and a variety of other socio-economic requirements, we must comply with such requirements. For example, for contracts with the U.S. federal government, we must comply with the Federal Acquisition Regulation, the Truth in Negotiations Act, and the Cost Accounting Standards. We must also comply with various other government regulations and requirements as well as various statutes related to employment practices, environmental protection, recordkeeping and accounting. These regulations and requirements affect how we transact business with our clients and, in some instances, impose additional costs on our business operations. Government contracts also contain terms that expose us to higher levels of risk and potential liability than non-government contracts.

We also are subject to government audits, investigations, and proceedings. For example, government agencies routinely review and audit government contractors to determine whether allowable costs are in accordance with applicable government regulations. These audits can result in adjustments to the amount of contract costs we believe are reimbursable by the agencies and the amount of our overhead costs allocated to the agencies.

If we violate these rules or regulations, fail to comply with a contractual or other requirement or do not satisfy an audit, a variety of penalties can be imposed by the government including monetary damages and criminal and civil penalties. In addition, any or all of our government contracts could be terminated, we could be suspended or debarred from all government contract work, or payment of our costs could be disallowed. The occurrence of any of these actions could harm our reputation and could have a material adverse impact on our results of operations.

Our future results could be materially affected by a number of public health issues whether occurring in the United States or abroad.

Public health issues, whether occurring in the United States or abroad, could disrupt our operations, disrupt the operations of suppliers or customers, or have a broader adverse impact on consumer spending and confidence levels that would negatively affect our suppliers and customers. We have developed contingency plans to address infectious disease scenarios and the potential impact on our operations, and we will continue to update these plans as necessary. However, there can be no assurance that these plans will be effective in eliminating the negative impact of any such diseases on the Company's operating results. We may be required to suspend operations in some or all of our locations, which could have a material adverse impact on our business, financial condition and results of operations.

Our Distribution Solutions segment is dependent upon sophisticated information systems. The implementation delay, malfunction, or failure of these systems for any extended period of time could have a material adverse impact on our business.

We rely on sophisticated information systems in our business to obtain, rapidly process, analyze and manage data to (1) facilitate the purchase and distribution of thousands of inventory items from numerous distribution centers, (2) receive, process and ship orders and handle other product and services on a timely basis, (3) manage the accurate billing and collections for thousands of customers, and (4) process payments to suppliers. If these systems are interrupted, damaged by an unforeseen event or actions of a third party, or fail for any extended period of time, we could have a material adverse impact on our results of operations.

We could experience losses or liability not covered by insurance.

In order to provide prompt and complete service to our major Distribution Solutions segment's customers, we maintain significant product inventory at certain of our distribution centers. While we seek to maintain property insurance coverage in amounts sufficient for our business, there can be no assurance that our property insurance will be adequate or available on acceptable terms. One or more large casualty losses caused by fire, earthquake or other natural disaster in excess of our coverage limits could have a material adverse impact on our results of operations.

McKESSON CORPORATION

Our business exposes us to risks that are inherent in the distribution, manufacturing, dispensing of pharmaceuticals and medical-surgical supplies, the provision of ancillary services, the conduct of our payer businesses (which include disease management programs and our nurse triage services) and the provision of products that assist clinical decision-making and relate to patient medical histories and treatment plans. If customers assert liability claims against our products and/or services, any ensuing litigation, regardless of outcome, could result in a substantial cost to us, divert management's attention from operations and decrease market acceptance of our products. We attempt to limit our liability to customers by contract; however, the limitations of liability set forth in the contracts may not be enforceable or may not otherwise protect us from liability for damages. Additionally, we may be subject to claims that are not explicitly covered by contract, such as a claim directly by a patient. We also maintain general liability coverage; however, this coverage may not continue to be available on acceptable terms, may not be available in sufficient amounts to cover one or more large claims against us and may include larger self-insured retentions or exclusions for certain products. In addition, the insurer might disclaim coverage as to any future claim. A successful product or professional liability claim not fully covered by our insurance could have a material adverse impact on our results of operations.

The failure of our healthcare technology businesses to attract and retain customers due to challenges in software product integration or to keep pace with technological advances may significantly reduce our results of operations.

Our healthcare technology businesses, the bulk of which resides in our Technology Solutions segment, deliver enterprise-wide clinical, patient care, financial, supply chain, strategic management software solutions and pharmacy automation to hospitals, physicians, homecare providers, retail and mail order pharmacies and payers. Challenges integrating software products could impair our ability to attract and retain customers, and it could have a material adverse impact on our consolidated results of operations and a disproportionate impact on the results of operations of our Technology Solutions segment.

Future advances in the healthcare information systems industry could lead to new technologies, products or services that are competitive with the technology products and services offered by our various businesses. Such technological advances could also lower the cost of such products and services or otherwise result in competitive pricing pressure or render our products obsolete.

The success of our technology businesses will depend, in part, on our ability to be responsive to technological developments, pricing pressures and changing business models. To remain competitive in the evolving healthcare information systems marketplace, our technology businesses must also develop new products on a timely basis. The failure to develop competitive products and to introduce new products on a timely basis could curtail the ability of our technology businesses to attract and retain customers, and thereby it could have a material adverse impact on our results of operations.

Proprietary technology protections may not be adequate and products may be found to infringe the rights of third parties.

We rely on a combination of trade secret, patent, copyright and trademark laws, nondisclosure and other contractual provisions and technical measures to protect our proprietary rights in our products and solutions. There can be no assurance that these protections will be adequate or that our competitors will not independently develop technologies that are equivalent or superior to our technology. In addition, despite protective measures, we may be subject to unauthorized use of our technology due to copying, reverse-engineering or other infringement. Although we believe that our products do not infringe the proprietary rights of third parties, from time-to-time third parties have asserted infringement claims against us and there can be no assurance that third parties will not assert infringement claims against us in the future. If we were found to be infringing others' rights, we may be required to pay substantial damage awards and forced to develop non-infringing products or technology, obtain a license or cease selling the products that contain the infringing technology. Additionally, we may find it necessary to initiate litigation to protect our trade secrets, to enforce our patent, copyright and trademark rights and to determine the scope and validity of the proprietary rights of others. These types of litigation can be costly and time consuming. These litigation expenses, damage payments or costs of developing replacement products or technology could have a material adverse impact on our results of operations.

McKESSON CORPORATION

System errors or failures of our products to conform to specifications could cause unforeseen liabilities or injury, harm our reputation and have a material adverse impact on our results of operations.

The software and software systems (“systems”) that we sell or operate are very complex. As with complex systems offered by others, our systems may contain errors, especially when first introduced. For example, our Technology Solutions segment’s business systems are intended to provide information for healthcare providers in providing patient care. Therefore, users of our systems have a greater sensitivity to errors than the general market for software products. If our software or systems lead to faulty clinical decisions or injury to patients, we could be subject to claims or litigation by our clients, clinicians or patients. In addition, such failures could damage our reputation and could negatively affect future sales.

Failure of a client’s system to perform in accordance with our documentation could constitute a breach of warranty and could require us to incur additional expense in order to make the system comply with the documentation. If such failure is not remedied in a timely manner, it could constitute a material breach under a contract, allowing the client to cancel the contract, obtain refunds of amounts previously paid or assert claims for significant damages.

Various risks could interrupt customers’ access to their data residing in our service center, exposing us to significant costs.

We provide remote hosting services that involve operating both our software and the software of third-party vendors for our customers. The ability to access the systems and the data that we host and support on demand is critical to our customers. Our operations and facilities are vulnerable to interruption and/or damage from a number of sources, many of which are beyond our control, including, without limitation (1) power loss and telecommunications failures, (2) fire, flood, hurricane and other natural disasters, (3) software and hardware errors, failures or crashes, and (4) computer viruses, hacking and similar disruptive problems. We attempt to mitigate these risks through various means including disaster recovery plans, separate test systems and change control and system security measures, but our precautions may not protect against all problems. If customers’ access is interrupted because of problems in the operation of our facilities, we could be exposed to significant claims, particularly if the access interruption is associated with problems in the timely delivery of medical care. We must maintain disaster recovery and business continuity plans that rely upon third-party providers of related services and if those vendors fail us at a time that our center is not operating correctly, we could incur a loss of revenue and liability for failure to fulfill our contractual service commitments. Any significant instances of system downtime could negatively affect our reputation and ability to sell our remote hosting services.

The length of our sales and implementation cycles for our Technology Solutions segment could have a material adverse impact on our future results of operations.

Many of the solutions offered by our Technology Solutions segment have long sales and implementation cycles, which could range from a few months to two years or more from initial contact with the customer to completion of implementation. How and when to implement, replace, or expand an information system, or modify or add business processes, are major decisions for healthcare organizations. Many of the solutions we provide typically require significant capital expenditures and time commitments by the customer. Any decision by our customers to delay or cancel implementation could have a material adverse impact on our results of operations. Furthermore, delays or failures to meet milestones established in our agreements may result in a breach of contract, termination of the agreement, damages and/or penalties as well as a reduction in our margins or a delay in our ability to recognize revenue.

McKESSON CORPORATION

We may be required to record a significant charge to earnings if our goodwill or intangible assets become impaired.

We are required under U.S. generally accepted accounting principles (“GAAP”) to test our goodwill for impairment, annually or more frequently if indicators for potential impairment exist. Indicators that are considered include significant changes in performance relative to expected operating results, significant changes in the use of the assets, significant negative industry, or economic trends or a significant decline in the Company’s stock price and/or market capitalization for a sustained period of time. In addition, we periodically review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Factors that may be considered a change in circumstances indicating that the carrying value of our intangible assets may not be recoverable include slower growth rates and the loss of a significant customer. We may be required to record a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill or intangible assets is determined. This could have a material adverse impact on our results of operations. There are inherent uncertainties in management’s estimates, judgments and assumptions used in assessing recoverability of goodwill and intangible assets. Any changes in key assumptions, including failure to meet business plans, a further deterioration in the market or other unanticipated events and circumstances, may affect the accuracy or validity of such estimates and could potentially result in an impairment charge.

Our foreign operations may subject us to a number of operating, economic, political and regulatory risks that may have a material adverse impact on our financial condition and results of operations.

We have operations based in foreign countries, including Canada, the United Kingdom, Ireland, other European countries and Israel and we have a large investment in Mexico. In the future, we look to continue to grow our foreign operations both organically and through acquisitions and investments; however, increasing our foreign operations carries additional risks. Operations outside of the United States may be affected by changes in trade protection laws, policies, measures and other regulatory requirements affecting trade and investment; unexpected changes in regulatory requirements for software, social, political, labor or economic conditions in a specific country or region; import/export regulations in both the United States and foreign countries and difficulties in staffing and managing foreign operations. Political changes and natural disasters, some of which may be disruptive, can interfere with our supply chain, our customers and all of our activities in a particular location. Additionally, foreign operations expose us to foreign currency fluctuations that could adversely impact our results of operations based on the movements of the applicable foreign currency exchange rates in relation to the U.S. dollar.

Foreign operations are also subject to risks of violations of laws prohibiting improper payments and bribery, including the U.S. Foreign Corrupt Practices Act and similar regulations in foreign jurisdictions. Failure to comply with these laws could subject us to civil and criminal penalties that could have a material adverse impact on our financial condition and results of operations.

We also may experience difficulties and delays inherent in sourcing products and contract manufacturing from foreign countries, including but not limited to (1) difficulties in complying with the requirements of applicable federal, state and local governmental authorities in the United States and of foreign regulatory authorities, (2) inability to increase production capacity commensurate with demand or the failure to predict market demand (3) other manufacturing or distribution problems including changes in types of products produced, limits to manufacturing capacity due to regulatory requirements or physical limitations that could impact continuous supply, and (4) damage to our reputation due to real or perceived quality issues. Manufacturing difficulties could result in production shutdowns, product shortages and other similar delays in product manufacturing that could have a material adverse impact on our financial condition and results of operations.

McKESSON CORPORATION

Tax legislation initiatives or challenges to our tax positions could have a material adverse impact on our results of operations.

We are a large multinational corporation with operations in the United States and international jurisdictions. As such, we are subject to the tax laws and regulations of the United States federal, state and local governments and of many international jurisdictions. From time-to-time, various legislative initiatives may be proposed that could adversely affect our tax positions. There can be no assurance that our effective tax rate will not be adversely affected by these initiatives. In addition, United States federal, state and local, as well as international, tax laws and regulations are extremely complex and subject to varying interpretations. Although we believe that our historical tax positions are sound and consistent with applicable laws, regulations and existing precedent, there can be no assurance that these tax positions will not be challenged by relevant tax authorities or that we would be successful in any such challenge.

Our business could be hindered if we are unable to complete and integrate acquisitions successfully.

An element of our strategy is to identify, pursue and consummate acquisitions that either expand or complement our business. Since 2008, we have completed approximately \$3 billion of business acquisitions. Integration of acquisitions involves a number of significant risks, including the diversion of management's attention to the assimilation of the operations of businesses we have acquired; difficulties in the integration of operations and systems; the realization of potential operating synergies; the assimilation and retention of the personnel of the acquired companies; accounting, regulatory or compliance issues that could arise, including internal control over financial reporting; challenges in retaining the customers, including physician affiliates, of the combined businesses. Further, acquisitions may have a material adverse impact on our operating results if unanticipated expenses or charges to earnings were to occur, including unanticipated depreciation and amortization expenses over the useful lives of certain assets acquired, as well as costs related to potential impairment charges, assumed litigation and unknown liabilities. In addition, we may potentially require additional financing in order to fund future acquisitions, which may or may not be attainable and is subject to potential volatility in the credit markets. If we are unable to successfully complete and integrate strategic acquisitions in a timely manner, our business and our growth strategies could be negatively affected.

Volatility and disruption to the global capital and credit markets may adversely affect our ability to access credit, our cost of credit and the financial soundness of our customers and suppliers.

Volatility and disruption in the global capital and credit markets, including the bankruptcy or restructuring of certain financial institutions, reduced lending activity by other financial institutions, decreased liquidity and increased costs in the commercial paper market and the reduced market for securitizations, may adversely affect the availability and cost of credit already arranged and the availability, terms and cost of credit in the future, including any arrangements to renew or replace our current credit or financing arrangements. Although we believe that our operating cash flow, financial assets, current access to capital and credit markets, including our existing credit and sales facilities, will give us the ability to meet our financing needs for the foreseeable future, there can be no assurance that continued or increased volatility and disruption in the global capital and credit markets will not impair our liquidity or increase our costs of borrowing.

Our \$1.35 billion accounts receivable sales facility is generally renewed annually and will expire in May 2011. Although we did not use this facility in 2010 or 2011, we have historically used it to fund working capital requirements, as needed. We anticipate renewing this facility before its expiration. Although we believe we will be able to renew this facility, there is no assurance that we will be able to do so.

McKESSON CORPORATION

Our business could also be negatively impacted if our customers or suppliers experience disruptions resulting from tighter capital and credit markets or a slowdown in the general economy. As a result, customers may modify, delay or cancel plans to purchase or implement our products or services and suppliers may increase their prices, reduce their output or change their terms of sale. Additionally, if customers' or suppliers' operating and financial performance deteriorates or if they are unable to make scheduled payments or obtain credit, customers may not be able to pay, or may delay payment of accounts receivable owed to us and suppliers may restrict credit, impose different payment terms or be unable to make payments due to us for fees, returned products or incentives. Any inability of customers to pay us for our products and services or any demands by suppliers for different payment terms may have a material adverse impact on our results of operations and cash flow.

Changes in accounting standards issued by the Financial Accounting Standards Board ("FASB") or other standard-setting bodies may adversely affect our financial statements.

Our financial statements are subject to the application of U.S. GAAP, which is periodically revised and/or expanded. Accordingly, from time-to-time we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the FASB and the SEC. It is possible that future accounting standards we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse impact on our results of operations and financial condition.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Because of the nature of our principal businesses, our plant, warehousing, office and other facilities are operated in widely dispersed locations, mostly throughout the U.S. and Canada. The warehouses are typically owned or leased on a long-term basis. We consider our operating properties to be in satisfactory condition and adequate to meet our needs for the next several years without making capital expenditures materially higher than historical levels. Information as to material lease commitments is included in Financial Note 15, "Lease Obligations," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Item 3. Legal Proceedings

Certain legal proceedings in which we are involved are discussed in Financial Note 17, "Other Commitments and Contingent Liabilities," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Item 4. Reserved

Not applicable.

McKESSON CORPORATION**Executive Officers of the Registrant**

The following table sets forth information regarding the executive officers of the Company, including their principal occupations during the past five years. The number of years of service with the Company includes service with predecessor companies.

There are no family relationships between any of the executive officers or directors of the Company. The executive officers are elected on an annual basis generally and their term expires at the first meeting of the Board of Directors ("Board") following the annual meeting of stockholders, or until their successors are elected and have qualified, or until death, resignation or removal, whichever is sooner.

<u>Name</u>	<u>Age</u>	<u>Position with Registrant and Business Experience</u>
John H. Hammergren	52	Chairman of the Board since July 2002; President and Chief Executive Officer since April 2001; and a director since July 1999. Service with the Company – 15 years.
Jeffrey C. Campbell.....	50	Executive Vice President and Chief Financial Officer since April 2004; Senior Vice President and Chief Financial Officer from December 2003 to April 2004. Service with the Company – 7 years.
Patrick J. Blake.....	47	Executive Vice President and Group President since June 2009; President of McKesson Specialty Care Solutions from April 2006 to June 2009; President of Customer Operations for McKesson U.S. Pharmaceutical from October 2000 to April 2006. Service with the Company – 15 years.
Jorge L. Figueredo.....	50	Executive Vice President, Human Resources since May 2008; Senior Vice President, Human Resources, Dow Jones, Inc. from February 2007 to January 2008; President, International, Liz Claiborne Inc. from October 1984 to May 2006. Service with the Company – 3 years.
Paul C. Julian.....	55	Executive Vice President and Group President since April 2004; Senior Vice President from August 1999 to April 2004. Service with the Company – 15 years.
Marc E. Owen.....	51	Executive Vice President, Corporate Strategy and Business Development since April 2004; Senior Vice President, Corporate Strategy and Business Development from September 2001 to April 2004. Service with the Company – 10 years.
Laureen E. Seeger.....	49	Executive Vice President, General Counsel and Chief Compliance Officer since April 2010 (functionally has served as chief compliance officer since March 2006); Executive Vice President and General Counsel from July 2009 to April 2010; Executive Vice President, General Counsel and Secretary from March 2006 to July 2009; Vice President and General Counsel of McKesson Provider Technologies from February 2000 to March 2006. Service with the Company – 11 years.
Randall N. Spratt	59	Executive Vice President, Chief Technology Officer and Chief Information Officer since April 2009; Executive Vice President, Chief Information Officer from July 2005 to April 2009; Senior Vice President, Chief Process Officer, McKesson Provider Technologies from April 2003 to July 2005. Service with the Company – 25 years.

McKESSON CORPORATION

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

- (a) *Market Information:* The principal market on which the Company's common stock is traded is the New York Stock Exchange ("NYSE").

The following table sets forth the high and low sales prices for our common stock as reported on NYSE for each quarterly period of the two most recently completed fiscal years:

	2011		2010	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First quarter	\$71.49	\$62.94	\$45.27	\$33.13
Second quarter	\$69.48	\$57.81	\$59.95	\$42.61
Third quarter	\$71.09	\$59.54	\$64.98	\$55.82
Fourth quarter	\$81.00	\$70.44	\$66.98	\$57.23

- (b) *Holders:* The number of record holders of the Company's common stock at March 31, 2011 was approximately 8,150.
- (c) *Dividends:* In May 2010, the Company's Board of Directors (the "Board") approved a change in the Company's dividend policy by increasing the amount of the Company's quarterly dividend from \$0.12 to \$0.18 per share, applicable to ensuing quarterly dividend declarations. We declared regular cash dividends of \$0.72 per share (or \$0.18 per share per quarter) in the year ended March 31, 2011 and \$0.48 per share (or \$0.12 per share per quarter) in the year ended March 31, 2010. In April 2011, the Board approved an increase in the quarterly dividend from \$0.18 to \$0.20 per share, applicable to ensuing quarterly dividend declarations.

The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon the Company's future earnings, financial condition, capital requirements and other factors.

- (d) *Securities Authorized for Issuance under Equity Compensation Plans:* Information relating to this item is provided under Part III, Item 12, to this Annual Report on Form 10-K.
- (e) *Share Repurchase Plans:* The following table provides information on the Company's share repurchases during the fourth quarter of 2011:

	Share Repurchases ⁽¹⁾			
	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
<i>(In millions, except price per share)</i>				
January 1, 2011 – January 31, 2011	—	\$ —	—	\$ 1,000
February 1, 2011 – February 28, 2011	—	—	—	1,000
March 1, 2011 – March 31, 2011	6	79.34	6	500
Total	6	79.34	6	500

- (1) This table does not include shares tendered to satisfy the exercise price in connection with cashless exercises of employee stock options or shares tendered to satisfy tax-withholding obligations in connection with employee equity awards.

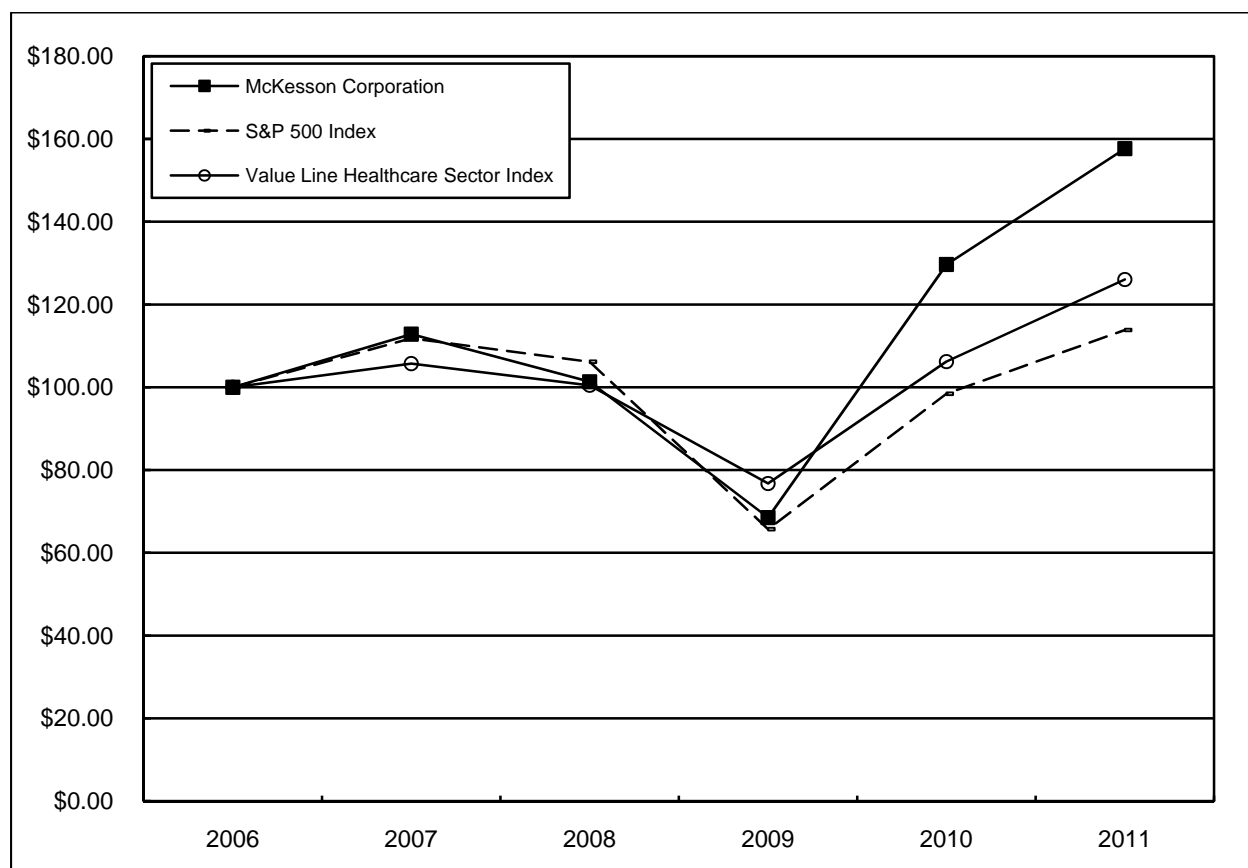
McKESSON CORPORATION

In October 2010, the Board approved a plan to repurchase up to \$1.0 billion of the Company's common stock of which \$500 million remained available for future repurchases as of March 31, 2011. In March 2011, we entered into an accelerated share repurchase ("ASR") program with a third party financial institution to repurchase \$275 million of the Company's common stock. The program was funded with cash on hand. As of March 31, 2011, we had received 3.1 million shares representing the minimum number of shares due under the program. The ASR program was completed on May 2, 2011 and we received 0.4 million additional shares on May 5, 2011. The total number of shares repurchased under the ASR program was 3.5 million shares at an average price per share of \$79.65. In addition, we repurchased 2.8 million shares for \$225 million during the fourth quarter of 2011 through regular open market transactions at an average price per share of \$79.00. In April 2011, the Board authorized the repurchase of up to an additional \$1.0 billion of the Company's common stock.

Stock repurchases may be made from time-to-time in open market transactions, privately negotiated transactions, through accelerated share repurchase programs, or by any combination of such methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations and other market and economic conditions.

McKESSON CORPORATION

- (f) *Stock Price Performance Graph**: The following graph compares the cumulative total stockholder return on the Company's common stock for the periods indicated with the Standard & Poor's 500 Index and the Value Line Healthcare Sector Index (composed of 162 companies in the health care industry, including the Company).



	March 31,					
	2006	2007	2008	2009	2010	2011
McKesson Corporation	\$ 100.00	\$ 112.83	\$ 101.33	\$ 68.52	\$ 129.66	\$ 157.65
S&P 500 Index	\$ 100.00	\$ 111.83	\$ 106.15	\$ 65.72	\$ 98.43	\$ 113.83
Value Line Healthcare Sector Index	\$ 100.00	\$ 105.72	\$ 100.47	\$ 76.75	\$ 106.21	\$ 126.05

* Assumes \$100 invested in McKesson's common stock and in each index on March 31, 2006 and that all dividends are reinvested.

McKESSON CORPORATION

Item 6. Selected Financial Data

FIVE-YEAR HIGHLIGHTS

	As of and for the Years Ended March 31,				
(In millions, except per share data and ratios)	2011	2010	2009	2008	2007
Operating Results					
Revenues	\$ 112,084	\$ 108,702	\$ 106,632	\$ 101,703	\$ 92,977
Percent change	3.1%	1.9%	4.8%	9.4%	6.9%
Gross profit	5,970	5,676	5,378	5,009	4,332
Income from continuing operations before income taxes	1,635	1,864	1,064	1,457	1,297
Income after income taxes					
Continuing operations	1,130	1,263	823	989	968
Discontinued operations	72	—	—	1	(55)
Net income	1,202	1,263	823	990	913
Financial Position					
Working capital	3,631	4,492	3,065	2,438	2,730
Days sales outstanding for: ⁽¹⁾					
Customer receivables	25	25	24	22	21
Inventories	31	34	31	33	32
Drafts and accounts payable	47	48	43	44	43
Total assets	30,886	28,189	25,267	24,603	23,943
Total debt, including capital lease obligations	4,004	2,297	2,512	1,797	1,958
Stockholders' equity	7,220	7,532	6,193	6,121	6,273
Property acquisitions	233	199	195	195	126
Acquisitions of businesses, net	292	18	358	610	1,938
Common Share Information					
Common shares outstanding at year-end	252	271	271	277	295
Shares on which earnings per common share were based					
Diluted	263	273	279	298	305
Basic	258	269	275	291	298
Diluted earnings per common share ⁽²⁾					
Continuing operations	\$ 4.29	\$ 4.62	\$ 2.95	\$ 3.32	\$ 3.17
Discontinued operations	0.28	—	—	—	(0.18)
Total	4.57	4.62	2.95	3.32	2.99
Cash dividends declared	188	131	134	70	72
Cash dividends declared per common share	0.72	0.48	0.48	0.24	0.24
Book value per common share ⁽²⁾⁽³⁾	28.65	27.79	22.87	22.10	21.26
Market value per common share – year end	79.05	65.72	35.04	52.37	58.54
Supplemental Data					
Capital employed ⁽⁴⁾	11,224	9,829	8,705	7,918	8,231
Debt to capital ratio ⁽⁵⁾	35.7%	23.4%	28.9%	22.7%	23.8%
Net debt to net capital employed ⁽⁶⁾	5.1%	(23.5)%	6.1%	6.6%	0.1%
Average stockholders' equity ⁽⁷⁾	7,105	6,768	6,214	6,344	6,022
Return on stockholders' equity ⁽⁸⁾	16.9%	18.7%	13.2%	15.6%	15.2%

Footnotes to Five-Year Highlights:

- (1) Based on year-end balances and sales or cost of sales for the last 90 days of the year.
- (2) Certain computations may reflect rounding adjustments.
- (3) Represents stockholders' equity divided by year-end common shares outstanding.
- (4) Consists of total debt and stockholders' equity.
- (5) Ratio is computed as total debt divided by capital employed.
- (6) Ratio is computed as total debt, net of cash and cash equivalents ("net debt"), divided by net debt and stockholders' equity ("net capital employed").
- (7) Represents a five-quarter average of stockholders' equity.
- (8) Ratio is computed as net income divided by a five-quarter average of stockholders' equity.

McKESSON CORPORATION

FINANCIAL REVIEW

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

Management's discussion and analysis of financial condition and results of operations, referred to as the Financial Review, is intended to assist the reader in the understanding and assessment of significant changes and trends related to the results of operations and financial position of the Company together with its subsidiaries. This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying financial notes in Item 8 of Part II of this Annual Report on Form 10-K. The Company's fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references in this document to a particular year shall mean the Company's fiscal year.

Certain statements in this report constitute forward-looking statements. See Item 1 – Business – Forward-Looking Statements in Part I of this Annual Report on Form 10-K for additional factors relating to these statements; also see Item 1A – Risk Factors in Part I of this Annual Report on Form 10-K for a list of certain risk factors applicable to our business, financial condition and results of operations.

We conduct our business through two operating segments: Distribution Solutions and Technology Solutions. See Financial Note 20, "Segments of Business," to the consolidated financial statements appearing in this Annual Report on Form 10-K for a description of these segments.

RESULTS OF OPERATIONS

Overview:

	Years Ended March 31,		
	2011	2010	2009
<i>(In millions, except per share data)</i>			
Revenues	\$ 112,084	\$ 108,702	\$ 106,632
Gross Profit	5,970	5,676	5,378
Operating Expenses ⁽¹⁾	(4,149)	(3,668)	(4,182)
Other Income, Net	36	43	12
Interest Expense	(222)	(187)	(144)
Income from Continuing Operations Before Income Taxes	1,635	1,864	1,064
Income Tax Expense	(505)	(601)	(241)
Income from Continuing Operations	1,130	1,263	823
Discontinued Operation – gain on sale, net of tax	72	—	—
Net Income	\$ 1,202	\$ 1,263	\$ 823
Diluted Earnings Per Common Share			
Continuing Operations	\$ 4.29	\$ 4.62	\$ 2.95
Discontinued Operation	0.28	—	—
Total	\$ 4.57	\$ 4.62	\$ 2.95
Weighted Average Diluted Common Shares	263	273	279

(1) Includes pre-tax litigation charges (credit) of \$213 million, \$(20) million and \$493 million for 2011, 2010 and 2009.

Revenues increased 3% to \$112.1 billion in 2011 and 2% to \$108.7 billion in 2010. The increase in revenues primarily reflects market growth in our Distribution Solutions segment, which accounted for approximately 97% of our consolidated revenues. Additionally, revenues for 2011 benefited from our December 30, 2010 acquisition of US Oncology Holdings, Inc. ("US Oncology") of The Woodlands, Texas and revenues for 2010 benefited to a lesser extent from an increase in demand related to the flu season. Partially offsetting the 2010 increases, revenues for that year were affected by the loss of several customers in late 2009.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Gross profit increased 5% to \$6.0 billion in 2011 and 6% to \$5.7 billion in 2010. As a percentage of revenues, gross profit increased 11 basis points (“bp”) to 5.33% and 18 bp to 5.22% in 2011 and 2010. The increase in our 2011 gross profit margin was primarily due to an increase in buy margin and increased sales of higher margin generic drugs in our Distribution Solutions segment. These increases were partially offset by a decline in our Technology Solutions segment margin which included a \$72 million asset impairment charge. The increase in our 2010 gross profit margin was primarily due to an improved mix of higher margin revenues in both our Distribution Solutions and Technology Solutions segments.

Operating expenses were \$4.1 billion, \$3.7 billion and \$4.2 billion in 2011, 2010 and 2009. Operating expenses include pre-tax charges (credit) of \$213 million, \$(20) million and \$493 million relating to our securities and Average Wholesale Price (“AWP”) litigation matters. Excluding these charges (credit), operating expenses increased in 2011 primarily reflecting higher employee compensation costs including expenses associated with our Profit Sharing Investment Plan (“PSIP”) as well as due to our acquisition of US Oncology. Excluding these charges (credit), operating expenses in 2010 approximated the same period a year ago primarily due to lower PSIP expenses and the sale of two businesses during the first and third quarters of 2009. These decreases were partially offset by an increase in expenses associated with employee compensation and benefit costs, our 2009 business acquisitions and other business initiatives. Our litigation charges (credit) and PSIP expense are more fully described under the caption “Operating Expenses” in this Financial Review.

Other income, net was \$36 million, \$43 million and \$12 million in 2011, 2010 and 2009. In 2009, other income, net included a pre-tax impairment charge of \$63 million (\$60 million after-tax) on two equity-held investments and a pre-tax gain of \$24 million (\$14 million after tax) from the sale of an equity-held investment.

Interest expense increased 19% to \$222 million in 2011 and 30% to \$187 million in 2010. Interest expense increased in 2011 primarily due to bridge loan fees incurred for our acquisition of US Oncology and interest expense associated with the assumed debt and the subsequent refinancing of the debt. These increases were partially offset by the repayment of \$215 million of long-term debt in March 2010. Interest expense increased in 2010 primarily due to our issuance of \$700 million of long-term debt in February 2009.

Our reported income tax rates were 30.9%, 32.2% and 22.7% in 2011, 2010 and 2009. In 2011, income tax expense included \$34 million of net income tax benefits for discrete items which primarily relates to the recognition of previously unrecognized tax benefits and accrued interest. In 2009, current income tax expense included \$111 million of net income tax benefits for discrete items of which \$87 million represents a non-cash benefit. These benefits primarily relate to the recognition of previously unrecognized tax benefits and related accrued interest.

Net income was \$1,202 million, \$1,263 million and \$823 million in 2011, 2010 and 2009, and diluted earnings per common share were \$4.57, \$4.62, and \$2.95. Diluted earnings per common share were favorably affected by decreases in our weighted average shares outstanding due to the cumulative effect of share repurchases over the past three years. Net income for 2011 includes a \$72 million after-tax gain (or \$0.28 per diluted share) on the sale of our Technology Solutions segment’s wholly-owned subsidiary, McKesson Asia Pacific Pty Limited (“MAP”), which was sold in July 2010. Historical financial results for this subsidiary were not material.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Revenues:

(In millions)	Years Ended March 31,		
	2011	2010	2009
Distribution Solutions			
Direct distribution & services	\$ 77,554	\$ 72,210	\$ 66,876
Sales to customers' warehouses	18,631	21,435	25,809
Total U.S. pharmaceutical distribution & services	96,185	93,645	92,685
Canada pharmaceutical distribution & services	9,784	9,072	8,225
Medical-Surgical distribution & services	2,920	2,861	2,658
Total Distribution Solutions	108,889	105,578	103,568
Technology Solutions			
Services	2,483	2,439	2,337
Software & software systems	590	571	572
Hardware	122	114	155
Total Technology Solutions	3,195	3,124	3,064
Total Revenues	\$ 112,084	\$ 108,702	\$ 106,632

Revenues increased 3% to \$112.1 billion in 2011 and 2% to \$108.7 billion in 2010. The increase in revenues primarily reflects market growth in our Distribution Solutions segment, which accounted for approximately 97% of our consolidated revenues.

Direct distribution and services revenues increased in 2011 compared to 2010 primarily due to market growth, which includes price increases and increased volume from new and existing customers, the effect of a shift from sales to customers' warehouses to direct store delivery, the lapsing of which was completed in the third quarter of 2011, and due to our acquisition of US Oncology. These increases were partially offset by a decline in demand associated with the flu season and price deflation associated with brand to generic drug conversions. Direct distribution and services revenues increased in 2010 compared to 2009 primarily due to a shift of revenues from sales to customers' warehouses to direct store delivery and market growth, partially offset by greater sales of lower priced generic drugs and the loss of several customers in late 2009. Revenues for 2010 benefited to a lesser extent from an increase in demand associated with the flu season.

Sales to customers' warehouses for 2011 decreased compared to 2010 primarily reflecting reduced revenues associated with existing customers, the effect of a shift of revenues to direct store delivery, the lapsing of which was completed in the third quarter of 2011, and the impact of brand to generic conversions. Sales to customers' warehouses for 2010 decreased compared to 2009 primarily due to a shift of revenues to direct store delivery, reduced revenues associated with a large customer and the loss of a large customer in mid-2009, partially offset by expanded business with existing customers.

Sales to retail customers' warehouses represent large volume sales of pharmaceuticals primarily to a limited number of large self-warehousing retail chain customers whereby we order bulk product from the manufacturer, receive and process the product through our central distribution facility and subsequently deliver the bulk product (generally in the same form as received from the manufacturer) directly to our customers' warehouses. This distribution method is typically not marketed or sold by the Company as a stand-alone service; rather, it is offered as an additional distribution method for our large retail chain customers that have an internal self-warehousing distribution network. Sales to customers' warehouses provide a benefit to these customers because they can utilize the Company as one source for both their direct-to-store business and their warehouse business. We generally have significantly lower gross profit margins on sales to customers' warehouses as we pass much of the efficiency of this low cost-to-serve model on to the customer. These sales do, however, contribute to our gross profit dollars.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

The customer mix of our U.S. pharmaceutical distribution revenues was as follows:

	Years Ended March 31,		
	2011	2010	2009
Direct Sales			
Independents	12%	12%	13%
Institutions	34	32	32
Retail Chains	33	32	26
Subtotal	79	76	71
Sales to retail customers' warehouses	21	24	29
Total	100%	100%	100%

As previously described, a limited number of our large retail chain customers purchase products through both our direct and warehouse distribution methods, the latter of which generally has a significantly lower gross profit margin due to the low cost-to-serve model. When evaluating and pricing customer contracts, we do so based on our assessment of total customer profitability. As a result, we do not evaluate our performance or allocate resources based on sales to customers' warehouses or gross profit associated with such sales.

Canadian pharmaceutical distribution and services revenues for 2011 increased compared to 2010 primarily due to a change in the foreign currency exchange rate of 7%. On a constant currency basis, revenues increased 1% in 2011. Canadian revenues for 2011 increased due to market growth, offset by a government-imposed price reduction for generic pharmaceuticals in certain provinces and brand to generic conversions. Canadian pharmaceutical distribution and services revenues for 2010 increased compared to 2009 primarily due to market growth and a favorable change in the foreign currency exchange rate of 3%. On a constant currency basis, revenues increased by 7% in 2010.

Medical-Surgical distribution and services revenues increased in 2011 compared to 2010 primarily due to market growth, partially offset by the decrease in demand associated with the flu season. Medical-Surgical distribution and services revenues increased in 2010 compared to 2009 reflecting an increase in demand related to the flu season, acquisitions and increased volume from new and existing customers.

Technology Solutions revenues increased slightly in 2011 compared to 2010 primarily due to an increase in maintenance revenues from new and existing customers, increased revenues associated with the sale and installation of our software products and growth in our outsourcing services, partially offset by the sale of MAP in July 2010. Technology Solutions revenues increased in 2010 compared to 2009 primarily due to higher services revenues associated with increases in outsourcing revenues for claims processing and other services and software maintenance reflecting the segment's expanded customer base. These increases were partially offset by a shift to products that have higher software revenue deferral rates and lower hardware sales.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Gross Profit:

<i>(Dollars in millions)</i>	Years Ended March 31,		
	2011	2010	2009
Gross Profit			
Distribution Solutions ⁽¹⁾	\$ 4,565	\$ 4,219	\$ 3,955
Technology Solutions ⁽²⁾	1,405	1,457	1,423
Total	<u>\$ 5,970</u>	<u>\$ 5,676</u>	<u>\$ 5,378</u>
Gross Profit Margin			
Distribution Solutions	4.19%	4.00%	3.82%
Technology Solutions	43.97	46.64	46.44
Total	<u>5.33</u>	<u>5.22</u>	<u>5.04</u>

- (1) Gross profit of our Distribution Solutions segment for 2011 includes a credit of \$51 million representing our share of a settlement of an antitrust class action lawsuit brought against a drug manufacturer, which was recorded as a reduction to cost of sales.
- (2) Gross profit of our Technology Solutions segment for 2011 includes a \$72 million asset impairment charge for capitalized software held for sale.

Gross profit increased 5% to \$6.0 billion in 2011 and 6% to \$5.7 billion in 2010. As a percentage of revenues, gross profit increased by 11 bp in 2011 and 18 bp in 2010. Gross profit margin increased in 2011 primarily reflecting higher gross profit margin from our Distribution Solutions segment and increased in 2010 primarily due to an improved mix of higher margin revenues in both of our operating segments.

In 2011, our Distribution Solutions segment's gross profit margin increased compared to 2010 primarily reflecting higher buy margin, increased sales of higher margin generic drugs and due to our acquisition of US Oncology, partially offset by a decline in demand associated with the flu season and a decrease in sell margin. Buy margin primarily reflects volume and timing of compensation from branded pharmaceutical manufacturers. Our Distribution Solutions segment's 2011 gross profit margin was also favorably affected by a credit of \$51 million representing our share of a settlement of an antitrust class action lawsuit.

In 2010, our Distribution Solutions segment's gross profit margin increased compared to 2009 primarily due to an improved mix of higher margin revenues stemming from increased flu-related demand across our distribution businesses. Gross profit margin was also favorably affected by a higher buy margin and increased sales of higher margin generic drugs. These benefits were partially offset by a decline in sell margin.

Our last-in, first-out ("LIFO") net inventory expense was \$3 million in 2011 and \$8 million for 2010 and 2009. Our Distribution Solutions segment uses the LIFO method of accounting for the majority of its inventories, which results in cost of sales that more closely reflects replacement cost than under other accounting methods. The practice in the Distribution Solutions segment's distribution businesses is to pass on to customers published price changes from suppliers. Manufacturers generally provide us with price protection, which limits price-related inventory losses. Price declines on many generic pharmaceutical products in this segment over the last few years have moderated the effects of inflation in other product categories, which resulted in minimal overall price changes in those years. Additional information regarding our LIFO accounting is included under the caption "Critical Accounting Policies and Estimates," included in this Financial Review.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

In 2011, our Technology Solutions segment's gross profit margin decreased compared to 2010 primarily due to a \$72 million asset impairment charge, the sale of MAP and continued investment in our clinical and enterprise revenue management solutions products. These decreases were partially offset by a shift to higher margin revenue. In 2010, our Technology Solutions segment's gross profit margin increased compared to 2009 primarily due to a favorable change in revenue mix, partially offset by a higher software revenue deferral rate.

Our capitalized software held for sale is amortized over three years. At each balance sheet date, or earlier if an indicator of an impairment exists, we evaluate the recoverability of unamortized capitalized software costs based on estimated future undiscounted revenues, net of estimated related costs over the remaining amortization period. In October 2010, we decreased our estimated revenues over the next 24 months for our Horizon Enterprise Revenue Management™ ("HzERM") software product and as a result, concluded that the estimated future revenues, net of estimated related costs, were insufficient to recover its carrying value. Accordingly, we recorded a \$72 million non-cash impairment charge in the second quarter of 2011 within our Technology Solutions segment's cost of sales to reduce the carrying value of the software product to its net realizable value.

Operating Expenses:

<i>(Dollars in millions)</i>	Years Ended March 31,		
	2011	2010	2009
Operating Expenses			
Distribution Solutions ⁽¹⁾	\$ 2,673	\$ 2,260	\$ 2,777
Technology Solutions	1,108	1,077	1,096
Corporate	368	351	309
Subtotal	4,149	3,688	4,182
Litigation (credit), net	—	(20)	—
Total	\$ 4,149	\$ 3,668	\$ 4,182
Operating Expenses as a Percentage of Revenues			
Distribution Solutions	2.45%	2.14%	2.68%
Technology Solutions	34.68	34.48	35.77
Total	3.70	3.37	3.92

(1) Operating expenses for 2011 and 2009 include \$213 million and \$493 million of AWP litigation charges.

Operating expenses increased 13% to \$4.1 billion in 2011 and decreased 12% to \$3.7 billion in 2010. Excluding the 2011, 2010 and 2009 litigation charges (credit) of \$213 million, \$(20) million and \$493 million, operating expenses increased 7% in 2011 and remained flat in 2010. Excluding the litigation charges (credit), operating expenses for 2011 increased compared to 2010 primarily due to higher costs associated with employee compensation and benefits including the McKesson Corporation Profit Sharing Investment Plan ("PSIP") and the addition of US Oncology.

Excluding the litigation charges (credit), operating expenses for 2010 approximated 2009 primarily due to lower PSIP expense, cost containment efforts and the sale of two businesses during 2009. These decreases were partially offset by an increase in expenses associated with employee compensation and benefit costs, our 2009 business acquisitions and other business initiatives.

The McKesson Corporation PSIP was a member of the settlement class in the Consolidated Securities Litigation Action. On April 27, 2009, the court issued an order approving the distribution of the settlement funds. On October 9, 2009, the PSIP received approximately \$119 million of the Consolidated Securities Litigation Action proceeds. Approximately \$42 million of the proceeds were attributable to the allocated shares of McKesson common stock owned by the PSIP participants during the Consolidated Securities Litigation Action class-holding period and were allocated to the respective participants on that basis in the third quarter of 2010. Approximately \$77 million of the proceeds were attributable to the unallocated shares (the "Unallocated Proceeds") of McKesson common stock owned by the PSIP in an employee stock ownership plan ("ESOP") suspense account. In accordance with the plan terms, the PSIP distributed all of the Unallocated Proceeds to current PSIP participants after the close of the plan year in April 2010. The receipt of the Unallocated Proceeds by the PSIP was reimbursement for the loss in value of the Company's common stock held by the PSIP in its ESOP suspense account during the Consolidated Securities Litigation Action class-holding period and was not a contribution made by the Company to the PSIP or ESOP.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Accordingly, there were no accounting consequences to the Company's financial statements relating to the receipt of the Unallocated Proceeds by the PSIP.

As a result of the PSIP's receipt of the Unallocated Proceeds, in 2010 the Company contributed \$1 million to the PSIP. Accordingly, PSIP expense for 2010 was nominal. In 2011, the Company resumed its contributions to the PSIP.

PSIP expense by segment for the last three years was as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2011	2010	2009
Distribution Solutions	\$ 23	\$ —	\$ 23
Technology Solutions	32	1	28
Corporate	4	—	2
PSIP expense	<u>\$ 59</u>	<u>\$ 1</u>	<u>\$ 53</u>
Cost of sales ⁽¹⁾	\$ 17	\$ —	\$ 12
Operating expenses	42	1	41
PSIP expense	<u>\$ 59</u>	<u>\$ 1</u>	<u>\$ 53</u>

(1) Amounts recorded to cost of sales pertain solely to our McKesson Technology Solutions segment.

On a segment basis, Distribution Solutions segment's operating expenses increased in 2011 and decreased in 2010 primarily due to the AWP litigation charges of \$213 million and \$493 million in 2011 and 2009. Excluding the AWP charge, operating expenses and operating expenses as a percentage of revenues increased in 2011 compared to 2010 primarily due to higher costs associated with employee compensation and benefits including PSIP expenses and the addition of US Oncology. Operating expenses in 2011 also increased as a result of changes in foreign currency exchange rates.

Excluding the AWP charge, Distribution Solutions segment's operating expenses and operating expenses as a percentage of revenues decreased in 2010 compared to 2009 primarily due to the sale of two businesses during 2009, lower PSIP expense in 2010 and our continued focus on cost containment. These decreases were partially offset by increased expenses associated with our 2009 business acquisitions.

As previously reported, in 2009 we reached an agreement to settle all private party claims relating to First DataBank, Inc.'s published drug reimbursement benchmarks for \$350 million. We also recorded an accrual of \$143 million for pending and expected AWP claims by public payers. The combination of the settlement for all AWP private party claims and the decision by us to establish an estimated accrual for the pending and expected AWP claims by public payers resulted in a pre-tax, non-cash charge of \$493 million in the third quarter of 2009. In the second quarter of 2011, we recorded a pre-tax charge of \$24 million for the settlement with the State of Connecticut relating to AWP claims. The settlement included an express denial of liability and a release by Connecticut of the Company as to all matters alleged or which could have been alleged in the action. A cash payment of \$26 million was made in the third quarter of 2011 for this settlement. During the third quarter of 2011, following a review of the reserve for estimated probable losses from current and possible future public entity AWP claims, which review included consideration of the pace and progress of settlement discussions during and after the third quarter relating to state and federal Medicaid claims, we recorded a pre-tax charge of \$189 million. All AWP litigation charges were included in our Distribution Solutions segment's operating expenses. As of March 31, 2011, the reserve relating to AWP public entity claims was \$330 million and was included in other current liabilities in our consolidated balance sheet. Refer to Financial Note 17, "Other Commitments and Contingent Liabilities," to the consolidated financial statements appearing in this Annual Report on Form 10-K for further information.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

As a result of our acquisition of US Oncology, we incurred a net \$52 million of acquisition-related expenses as follows:

<i>(In millions)</i>	Distribution Solutions	Corporate & Interest Expense	Total
Operating expenses:			
Transaction closing expenses	\$ 22	\$ —	\$ 22
Severance and relocation	9	—	9
Other integration expenses	10	2	12
Total operating expenses	41	2	43
Other income: reimbursement of post-acquisition interest expense from former shareholders	—	(16)	(16)
Interest expense: bridge loan fees	—	25	25
Total acquisition-related expenses	\$ 41	\$ 11	\$ 52

We anticipate incurring additional acquisition-related expenses in 2012 as we continue to integrate US Oncology.

Technology Solutions segment's operating expenses and operating expenses as a percentage of revenues increased in 2011 and decreased in 2010. The growth in 2011 reflects our increased investment in research and development activities and higher employee compensation and benefit costs, which includes PSIP expense, partially offset by the sale of MAP in the second quarter of 2011. Operating expenses and operating expenses as a percentage of revenues for 2010 benefited from lower PSIP expense, cost containment efforts and reduction in workforce plans implemented in 2009, partially offset by our continued investment in research and development activities.

Corporate expenses for 2011 increased compared to 2010 primarily due to higher compensation and benefits costs and an asset impairment charge for certain tangible property, partially offset by lower fees associated with our accounts receivable facility. As a result of our adoption of a new accounting standard for transfers of financial assets on April 1, 2010, fees associated with our accounts receivable sales facility are now recorded in interest expense. Prior to 2011, these fees were recorded in Corporate administrative expenses. Corporate expenses for 2010 increased compared to 2009 primarily due to higher compensation and benefits costs, other business initiatives and legal settlement charges.

In 2010, we recorded net credits of \$20 million relating to settlements for the securities litigation, which were recorded in Corporate expenses.

Other Income, net:

<i>(In millions)</i>	Years Ended March 31,		
	2011	2010	2009
By Segment			
Distribution Solutions	\$ 5	\$ 29	\$ (20)
Technology Solutions	4	5	7
Corporate	27	9	25
Total	\$ 36	\$ 43	\$ 12

In 2011, other income, net included a credit of \$16 million representing the reimbursement of post-acquisition interest expense by the former shareholders of US Oncology, which is recorded in Corporate. Interest income was \$18 million, \$16 million and \$31 million in 2011, 2010 and 2009.

In 2010, other income, net included a \$17 million pre-tax gain (\$14 million after-tax) from the sale of our 50% equity interest in McKesson Logistic Solutions, LLC ("MLS"). The gain on sale of our investment in MLS was recorded within our Distribution Solutions segment. This increase was partially offset by a decrease in interest income due to lower interest rates.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

In 2009, other income, net included a pre-tax impairment charge of \$63 million (\$60 million after-tax) on two equity-held investments (as further described below) and a pre-tax gain of \$24 million (\$14 million after-tax) from the sale of our 42% equity interest in Verispan, LLC (“Verispan”). The impairment charge and the gain on sale of our investment in Verispan were both recorded within our Distribution Solutions segment.

We evaluate our investments for impairment when events or changes in circumstances indicate that the carrying values of such investment may have experienced an other-than-temporary decline in value. In 2009, we determined that the fair value of our interest in Parata Systems, LLC (“Parata”) was lower than its carrying value and that such impairment was other-than-temporary. Fair value was determined using a discounted cash flow analysis based on estimated future results and market capitalization rates. We determined the impairment was other-than-temporary based on our assessment of all relevant factors including deterioration in the investee’s financial condition and weak market conditions. As a result, we recorded a pre-tax impairment of \$58 million (\$55 million after-tax) on this investment which is recorded as other income, net in the consolidated statements of operations within our Distribution Solutions segment. Our investment in Parata is accounted for under the equity method of accounting.

In 2009, we also recorded a pre-tax impairment of \$5 million (\$5 million after-tax) on another equity-held investment within our Distribution Solutions segment.

Segment Operating Profit and Corporate Expenses:

(Dollars in millions)	Years Ended March 31,		
	2011	2010	2009
Segment Operating Profit ⁽¹⁾			
Distribution Solutions ⁽²⁾	\$ 1,897	\$ 1,988	\$ 1,158
Technology Solutions	301	385	334
Subtotal	2,198	2,373	1,492
Corporate Expenses, Net	(341)	(342)	(284)
Litigation Credit, Net	—	20	—
Interest Expense	(222)	(187)	(144)
Income from Continuing Operations Before Income Taxes	\$ 1,635	\$ 1,864	\$ 1,064
Segment Operating Profit Margin			
Distribution Solutions	1.74%	1.88%	1.12%
Technology Solutions	9.42	12.32	10.90

(1) Segment operating profit includes gross profit, net of operating expenses, plus other income (expense), net for our two operating segments.

(2) Operating expenses for 2011 and 2009 for our Distribution Solutions segment included \$213 million and \$493 million of AWP litigation charges.

Operating profit margin for our Distribution Solutions segment decreased in 2011 compared to 2010 primarily due to higher operating expenses as a percentage of revenue, including a \$213 million AWP litigation charge, partially offset by a higher gross profit margin, which included a \$51 million antitrust settlement.

Operating profit margin for our Distribution Solutions segment increased in 2010 compared to 2009 primarily due to a higher gross profit margin, lower operating expenses as a percentage of revenues and higher other income. Results for 2010 included the \$17 million gain on sale of MLS. Results for 2009 included the \$493 million AWP litigation charge, \$63 million of charges to write-down two equity-held investments and a \$24 million gain on the sale of the segment’s 42% equity investment in Verispan.

Operating profit margin in our Technology Solutions segment decreased in 2011 compared to 2010 primarily reflecting a decrease in gross profit margin, which included the \$72 million asset impairment charge and an increase in operating expenses as a percentage of revenues. Operating profit margin in our Technology Solutions segment increased in 2010 compared to 2009 primarily due to lower operating expenses as a percentage of revenues and an improvement in gross profit margin.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Corporate expenses, net of other income were flat in 2011 compared to 2010 primarily due to an increase in operating expenses which were fully offset by an increase in other income, including the \$16 million benefit associated with the reimbursement of post-acquisition interest expense by the former shareholders of US Oncology. Corporate expenses, net of other income increased in 2010 compared to 2009 primarily due to an increase in operating expenses and a decrease in interest income.

Interest Expense: Interest expense increased in 2011 compared to 2010 primarily due to \$25 million of bridge loan fees related to the acquisition of US Oncology, interest expense associated with the assumed debt and the subsequent refinancing of the debt, and fees from our accounts receivable sales facility which are recorded in interest expense commencing in 2011. These increases were partially offset by lower interest expense due to the repayment of \$215 million of our long-term debt in March 2010. Interest expense increased in 2010 compared to 2009 primarily due to our issuance of \$700 million of long-term debt in February 2009. Refer to our discussion under the caption “Credit Resources” within this Financial Review for additional information regarding our financing activities.

Income Taxes: Our reported tax rates were 30.9%, 32.2% and 22.7% in 2011, 2010 and 2009. In addition to the items noted below, fluctuations in our reported tax rate are primarily due to changes within our business mix, including varying proportions of income attributable to foreign countries that have lower income tax rates.

In 2011, income tax expense included \$34 million of net income tax benefits for discrete items, which primarily relates to the recognition of previously unrecognized tax benefits and accrued interest.

In 2009, income tax expense included \$111 million of net income tax benefits for discrete items of which \$87 million represents a non-cash benefit. These benefits primarily relate to the recognition of previously unrecognized tax benefits and related accrued interest. The recognition of these discrete items was primarily due to the lapsing of the statutes of limitations.

The U.S. Internal Revenue Service (“IRS”) is currently examining our fiscal years 2003 through 2006 and we anticipate the field work will be completed and they will issue the Revenue Agent Report in our first quarter of fiscal 2012. We have received assessments from the Canada Revenue Agency (“CRA”) for a total of \$169 million related to transfer pricing for 2003 through 2007. Payments of most of the assessments to the CRA have been made to stop the accrual of interest. We have appealed the assessment for 2003 to the Tax Court of Canada and have filed a notice of objection for 2004 through 2007. If we are not successful in resolving these issues with the CRA, a trial date has been set for October 17, 2011 with the Tax Court of Canada. We believe that we have adequately provided for any potential adverse results relating to the IRS and CRA examinations. However, the final resolution of these issues could result in an increase or decrease to income tax expense.

Discontinued Operation: In July 2010, our Technology Solutions segment sold MAP, a provider of phone and web-based healthcare services in Australia and New Zealand, for net sales proceeds of \$109 million. The divestiture generated a pre-tax and after-tax gain of \$95 million and \$72 million. As a result of the sale, we were able to utilize capital loss carry-forwards for which we previously recorded a valuation allowance of \$15 million. The release of the valuation allowance is included as a tax benefit in our after-tax gain on the divestiture. The after-tax gain on disposition was recorded as a discontinued operation in our statement of operations in 2011. The historical financial operating results and net assets of MAP were not material to our consolidated financial statements for all periods presented.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Net Income: Net income was \$1,202 million, \$1,263 million and \$823 million in 2011, 2010 and 2009 and diluted earnings per common share were \$4.57, \$4.62 and \$2.95. The net income and diluted earnings per common share for 2011 included a pre-tax charge of \$213 million (\$149 million after-tax). Net income and diluted earnings per common share for 2011 also included an after-tax gain of \$72 million (or \$0.28 per diluted share) relating to our sale of MAP. The net income and diluted earnings per common share for 2009 included a pre-tax charge of \$493 million (\$311 million after-tax) for the AWP litigation.

Weighted Average Diluted Common Shares Outstanding: Diluted earnings per common share was calculated based on a weighted average number of shares outstanding of 263 million, 273 million and 279 million for 2011, 2010 and 2009. The decrease in the number of weighted average diluted common shares outstanding over the past two years primarily reflects a decrease in the number of shares outstanding as a result of stock repurchased, partially offset by the exercise/settlement of share-based awards.

International Operations

International operations accounted for 8.9%, 8.6% and 7.9% of 2011, 2010 and 2009 consolidated revenues. International operations are subject to certain risks, including currency fluctuations. We monitor our operations and adopt strategies responsive to changes in the economic and political environment in each of the countries in which we operate. Additional information regarding our international operations is also included in Financial Note 20, "Segments of Business," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Business Combinations

On December 30, 2010, we acquired all of the outstanding shares of US Oncology for approximately \$2.1 billion, consisting of cash consideration of \$0.2 billion, net of cash acquired, and the assumption of liabilities with a fair value of \$1.9 billion. As an integrated oncology company, US Oncology is affiliated with community-based oncologists, and works with patients, hospitals, payers and the medical industry across all phases of the cancer research and delivery continuum. The acquisition of US Oncology expands our existing specialty pharmaceutical distribution business and adds practice management services for oncologists. The cash paid at acquisition was funded from cash on hand.

Included in the purchase price allocation are acquired identifiable intangibles of \$1.0 billion, which primarily consist of \$0.7 billion of service agreements and \$0.2 billion of customer lists. The estimated weighted average lives of the service agreements, customer lists and total acquired intangibles are 18 years, 10 years and 16 years. The excess of the purchase price over the net tangible and intangible assets of approximately \$808 million was recorded as goodwill, which primarily reflects the expected future benefits to be realized upon integrating the business. Due to the recent timing of the acquisition, the fair value measurements of assets and liabilities assumed as of the acquisition date are subject to change within the measurement period as our fair value assessments are finalized. Financial results for US Oncology have been included in the results of operations within our Distribution Solutions segment beginning in the fourth quarter of 2011.

On May 21, 2008, we acquired McQueary Brothers of Springfield, Missouri for approximately \$190 million. McQueary Brothers is a regional distributor of pharmaceutical, health and beauty products to independent and regional chain pharmacies in the Midwestern U.S. This acquisition expanded our existing U.S. pharmaceutical distribution business. The acquisition was funded with cash on hand. Financial results for McQueary Brothers have been included within our Distribution Solutions segment since the date of acquisition. During the first quarter of 2010, the fair value measurements of assets acquired and liabilities assumed as of the acquisition date were completed. The excess of the purchase price over the net tangible and intangible assets of approximately \$126 million was recorded as goodwill, which primarily reflected the expected future benefits from synergies to be realized upon integrating the business. Included in the purchase price allocation were acquired identifiable intangibles of \$61 million primarily representing a customer relationship with a useful life of 7 years, a trade name of \$2 million with a useful life of less than one year and a not-to-compete agreement of \$4 million with a useful life of 4 years.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

During the last three years, we also completed a number of other smaller acquisitions within both of our operating segments. Financial results for our business acquisitions have been included in our consolidated financial statements since their respective acquisition dates. Purchase prices for our business acquisitions have been allocated based on estimated fair values at the date of acquisition.

Goodwill recognized for our business acquisitions is generally not expected to be deductible for tax purposes. Pro forma results of operations for our business acquisitions have not been presented because the effects were not material to the consolidated financial statements on either an individual or an aggregate basis. Refer to Financial Notes 2 and 11, “Business Combinations” and “Debt and Financing Activities,” to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information.

2012 Outlook

Information regarding the Company’s 2012 outlook is contained in our Form 8-K dated May 3, 2011. This Form 8-K should be read in conjunction with the sections Item 1 – Business – Forward-Looking Statements and Item 1A – Risk Factors in Part 1 of this Annual Report on Form 10-K.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)****CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

We consider an accounting estimate to be critical if the estimate requires us to make assumptions about matters that were uncertain at the time the accounting estimate was made and if different estimates that we reasonably could have used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on our financial condition or results from operations. Below are the estimates that we believe are critical to the understanding of our operating results and financial condition. Other accounting policies are described in Financial Note 1, "Significant Accounting Policies," to the consolidated financial statements appearing in this Annual Report on Form 10-K. Because of the uncertainty inherent in such estimates, actual results may differ from these estimates.

Allowance for Doubtful Accounts: We provide short-term credit and other customer financing arrangements to customers who purchase our products and services. Other customer financing primarily relates to guarantees provided to our customers, or their creditors, regarding the repurchase of inventories. We also provide financing to certain customers related to the purchase of pharmacies, which serve as collateral for the loans. We estimate the receivables for which we do not expect full collection based on historical collection rates and specific knowledge regarding the current creditworthiness of our customers and record an allowance in our consolidated financial statements for these amounts.

In determining the appropriate allowance for doubtful accounts, which includes portfolio and specific reserves, the Company reviews accounts receivable aging, industry trends, customer financial strength, credit standing, historical write-off trends and payment history to assess the probability of collection. If the frequency and severity of customer defaults due to our customers' financial condition or general economic conditions change, our allowance for uncollectible accounts may require adjustment. As a result, we continuously monitor outstanding receivables and other customer financing and adjust allowances for accounts where collection may be in doubt. During 2011, sales to our ten largest customers accounted for approximately 51% of our total consolidated revenues. Sales to our two largest customers, CVS Caremark Corporation ("CVS") and Rite Aid Corporation ("Rite Aid"), accounted for approximately 14% and 11% of our total consolidated revenues. At March 31, 2011, accounts receivable from our ten largest customers were approximately 43% of total accounts receivable. Accounts receivable from CVS, Wal-Mart Stores, Inc. ("Walmart") and Rite Aid were approximately 13%, 10% and 9% of total accounts receivable. As a result, our sales and credit concentration is significant. A default in payments, a material reduction in purchases from these, or any other large customer or the loss of a large customer could have a material adverse impact on our financial condition, results of operations and liquidity.

Reserve methodologies are assessed annually based on historical losses and economic, business and market trends. In addition, reserves are reviewed quarterly and updated if unusual circumstances or trends are present. We believe the reserves maintained and expenses recorded in 2011 are appropriate and consistent with historical methodologies employed. At this time, we are not aware of any internal process or customer issues that might lead to a significant increase in the foreseeable future in our allowance for doubtful accounts as a percentage of net revenue.

At March 31, 2011, trade and notes receivables were \$8,108 million prior to allowances of \$124 million. In 2011, 2010 and 2009 our provision for bad debts was \$18 million, \$17 million and \$29 million. At March 31, 2011 and 2010, the allowance as a percentage of trade and notes receivables was 1.5% and 1.8%. An increase or decrease of a hypothetical 0.1% in the 2011 allowance as a percentage of trade and notes receivables would result in an increase or decrease in the provision for bad debts of approximately \$8 million. The selected 0.1% hypothetical change does not reflect what could be considered the best or worst case scenarios. Additional information concerning our allowance for doubtful accounts may be found in Schedule II included in this Annual Report on Form 10-K.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Inventories: We report inventories at the lower of cost or market (“LCM”). Inventories for our Distribution Solutions segment consist of merchandise held for resale. For our Distribution Solutions segment, the majority of the cost of domestic inventories is determined using the LIFO method and the cost of Canadian inventories is determined using the first-in, first-out (“FIFO”) method. Technology Solutions segment inventories consist of computer hardware with cost determined by the standard cost method. Rebates, fees, cash discounts, allowances, chargebacks and other incentives received from vendors are generally accounted for as a reduction in the cost of inventory and are recognized when the inventory is sold. Total inventories were \$9.2 billion and \$9.4 billion at March 31, 2011 and 2010.

The LIFO method was used to value approximately 87% of our inventories at March 31, 2011 and 2010. At March 31, 2011 and 2010, our LIFO reserves, net of LCM adjustments, were \$96 million and \$93 million. LIFO reserves include both pharmaceutical and non-pharmaceutical products. In 2011, 2010, and 2009, we recognized net LIFO expense of \$3 million, \$8 million and \$8 million within our consolidated statements of operations. In 2011, our \$3 million net LIFO expense related to our non-pharmaceutical products. A LIFO expense is recognized when the net effect of price increases on branded pharmaceuticals and non-pharmaceutical products held in inventory exceeds the impact of price declines and shifts towards generic pharmaceuticals, including the effect of branded pharmaceutical products that have lost market exclusivity. A LIFO credit is recognized when the net effect of price declines and shifts towards generic pharmaceuticals exceeds the impact of price increases on branded pharmaceuticals and non-pharmaceutical products held in inventory.

We believe that the FIFO inventory costing method provides a reasonable estimation of the current cost of replacing inventory (i.e., “market”). As such, our LIFO inventory is valued at the lower of LIFO or inventory as valued under FIFO. Primarily due to continued net deflation in generic pharmaceutical inventories, pharmaceutical inventories at LIFO were \$156 million and \$112 million higher than FIFO as of March 31, 2011 and 2010. As a result, in 2011 and 2010, we recorded LCM charges of \$44 million and \$5 million within our consolidated statements of operations to adjust our LIFO inventories to market. As deflation in generic pharmaceuticals continues, we anticipate that LIFO credits from the valuation of our pharmaceutical products will be fully offset by LCM reserves.

In determining whether inventory valuation issues exist, we consider various factors including estimated quantities of slow-moving inventory by reviewing on-hand quantities, outstanding purchase obligations and forecasted sales. Shifts in market trends and conditions, changes in customer preferences due to the introduction of generic drugs or new pharmaceutical products or the loss of one or more significant customers are factors that could affect the value of our inventories. We provide reserves for excess and obsolete inventory, if indicated, as a result of these reviews. These factors could make our estimates of inventory valuation differ from actual results.

Business Combinations: We account for acquired businesses using the acquisition method of accounting, which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Effective April 1, 2009, acquisition-related expenses and restructuring costs are recognized separately from the business combinations and are expensed as incurred. Acquisition-related expenses totaled \$52 million in 2011 and were not material in 2010.

Several methods may be used to determine the fair value of assets acquired and liabilities assumed. For intangible assets, we typically use the income method. This method starts with a forecast of all of the expected future net cash flows for each asset or liability acquired. These cash flows are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. Some of the more significant estimates and assumptions inherent in the income method or other methods include the amount and timing of projected future cash flows, the discount rate selected to measure the risks inherent in the future cash flows and the assessment of the asset’s life cycle and the competitive trends impacting the asset, including consideration of any technical, legal, regulatory, or economic barriers to entry. Determining the useful life of an intangible asset also requires judgment as different types of intangible assets will have different useful lives and certain assets may even be considered to have indefinite useful lives. Refer to Financial Note 2, “Business Combinations,” to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information regarding our acquisitions.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Goodwill: As a result of acquiring businesses, we have \$4,364 million and \$3,568 million of goodwill at March 31, 2011 and 2010. We maintain goodwill assets on our books unless the assets are considered to be impaired. We perform an impairment test on goodwill balances annually in the fourth quarter or more frequently if indicators for potential impairment exist. Indicators that are considered include significant changes in performance relative to expected operating results, significant changes in the use of the assets, significant negative industry, or economic trends or a significant decline in the Company's stock price and/or market capitalization for a sustained period of time.

Impairment testing is conducted at the reporting unit level, which is generally defined as a component – one level below our Distribution Solutions and Technology Solutions operating segments, for which discrete financial information is available and segment management regularly reviews the operating results of that unit. Components that have essentially similar operations, products, services and customers are aggregated as a single reporting unit. Management judgment is involved in determining which components may be combined and changes in these combinations could affect the outcome of the testing.

Impairment tests require that we first compare the carrying value of net assets to the estimated fair value of net assets for the reporting units. If the carrying value exceeds the fair value, a second step would be performed to calculate the amount of impairment, which would be recorded as a charge in our consolidated statements of operations. Fair values can be determined using the market, income or cost approach. To estimate the fair value of our reporting units, we use a combination of the market approach and the income approach. Under the market approach, we estimate fair value by comparing the business to similar businesses, or guideline companies whose securities are actively traded in public markets. Under the income approach, we use a discounted cash flow model in which cash flows anticipated over several periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate rate of return. In addition, we compare the aggregate fair value of our reporting units to our market capitalization as further corroboration of the fair value.

Some of the more significant estimates and assumptions inherent in the goodwill impairment estimation process using the market approach include the selection of appropriate guideline companies, the determination of market value multiples for both the guideline companies and the reporting unit, the determination of applicable premiums and discounts based on any differences in marketability between the business and the guideline companies and for the income approach, the required rate of return used in the discounted cash flow method, which reflects capital market conditions and the specific risks associated with the business. Other estimates inherent in both the market and income approaches include long-term growth rates, projected revenues and earnings and cash flow forecasts for the reporting units.

Estimates of fair value result from a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions at a point in time. The judgments made in determining an estimate of fair value may materially impact our results of operations. The valuations are based on information available as of the impairment review date and are based on expectations and assumptions that have been deemed reasonable by management. Any changes in key assumptions, including failure to meet business plans, a further deterioration in the market or other unanticipated events and circumstances, may affect the accuracy or validity of such estimates and could potentially result in an impairment charge.

In 2011, 2010 and 2009, we concluded that there were no impairments of goodwill as the fair value of each reporting unit exceeded its carrying value.

Supplier Incentives: Fees for service and other incentives received from suppliers, relating to the purchase or distribution of inventory, are generally reported as a reduction to cost of goods sold. We consider these fees and other incentives to represent product discounts and as a result, the amounts are recorded as a reduction of product cost and are recognized through cost of goods sold upon the sale of the related inventory.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Supplier Reserves: We establish reserves against amounts due from suppliers relating to various price and rebate incentives, including deductions or billings taken against payments otherwise due to them. These reserve estimates are established based on judgment after considering the status of current outstanding claims, historical experience with the suppliers, the specific incentive programs and any other pertinent information available. We evaluate the amounts due from suppliers on a continual basis and adjust the reserve estimates when appropriate based on changes in factual circumstances. As of March 31, 2011 and 2010, supplier reserves were \$102 million and \$89 million. The ultimate outcome of any amounts due from our suppliers may be different from our estimate. All of the supplier reserves at March 31, 2011 and 2010 pertain to our Distribution Solutions segment. An increase or decrease in the supplier reserve as a hypothetical 0.1% of trade payables at March 31, 2011 would result in an increase or decrease in the cost of sales of approximately \$14 million in 2011. The selected 0.1% hypothetical change does not reflect what could be considered the best or worst case scenarios.

Income Taxes: Our income tax expense and deferred tax assets and liabilities reflect management's best assessment of estimated current and future taxes to be paid. We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax provision and in evaluating income tax uncertainties. We review our tax positions at the end of each quarter and adjust the balances as new information becomes available.

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets, we consider all available positive and negative evidence including our past operating results, the existence of cumulative net operating losses in the most recent years and our forecast of future taxable income. In estimating future taxable income, we develop assumptions including the amount of future federal, state and foreign pre-tax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we use to manage the underlying businesses. We had deferred income tax assets (net of valuation allowances) of \$1,297 million and \$1,187 million at March 31, 2011 and 2010 and deferred tax liabilities of \$2,261 million and \$1,845 million. Deferred tax assets primarily consist of net loss and credit carryforwards and timing differences on our compensation and benefit related accruals. Deferred tax liabilities primarily consist of basis differences for inventory valuation (including inventory valued at LIFO) and other assets. We established valuation allowances of \$99 million against certain deferred tax assets, which primarily relate to federal, state and foreign loss carryforwards for which the ultimate realization of future benefits is uncertain. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. Should tax laws change, including those laws pertaining to LIFO, our cash flows could be materially impacted.

If our assumptions and estimates described above were to change, an increase/decrease of 1% in our effective tax rate as applied to income from continuing operations would have increased/decreased tax expense by approximately \$16 million, or \$0.06 per diluted share, for 2011.

Share-Based Compensation: Our compensation programs include share-based compensation. We account for all share-based compensation transactions using a fair-value based measurement method. The share-based compensation expense is recognized, for the portion of the awards that is ultimately expected to vest, on a straight-line basis over the requisite service period for those awards with graded vesting and service conditions. For awards with performance conditions and multiple vest dates, we recognize the expense on a graded vesting basis. For awards with performance conditions and a single vest date, we recognize the expense on a straight-line basis.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

We estimate the grant-date fair value of employee stock options using the Black-Scholes options-pricing model. We believe that it is difficult to accurately measure the value of an employee stock option. Our estimates of employee stock option values rely on estimates of factors we input into the model. The key factors involve an estimate of future uncertain events. The key factors influencing the estimation process, among others, are the expected life of the option, the expected stock price volatility factor and the expected dividend yield. In determining the expected life of the option, we primarily use historical experience as our best estimate of future exercise patterns. We use a combination of historical and implied market volatility to determine the expected stock price volatility factor. We believe that this market-based input provides a better estimate of our future stock price movements and is consistent with employee stock option valuation considerations. Once the fair values of employee stock options are determined, current accounting practices do not permit them to be changed, even if the estimates used are different from actual experience.

In addition, we develop an estimate of the number of share-based awards, which will ultimately vest primarily based on historical experience. Changes in the estimated forfeiture rate can have a material effect on share-based compensation expense. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment is made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment is made to decrease the estimated forfeiture rate, which will result in an increase to the expense recognized in the financial statements. We re-assess the estimated forfeiture rate established upon grant periodically throughout the requisite service period. Such estimates are revised if they differ materially from actual forfeitures. As required, the forfeiture estimates will be adjusted to reflect actual forfeitures when an award vests. The actual forfeitures in future reporting periods could be materially higher or lower than our current estimates.

Our assessments of estimated share-based compensation charges are affected by our stock price as well as assumptions regarding a number of complex and subjective variables and the related tax impact. These variables include the volatility of our stock price, employee stock option exercise behavior, timing, number and types of annual share-based awards and the attainment of performance goals. As a result, the future share-based compensation expense may differ from the Company's historical amounts.

Loss Contingencies: We are subject to various claims, other pending and potential legal actions for damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of our business. When a loss is considered probable and reasonably estimable, we record a liability in the amount of our best estimate for the ultimate loss. However, the likelihood of a loss with respect to a particular contingency is often difficult to predict and determining a meaningful estimate of the loss or a range of loss may not be practicable based on the information available and the potential effect of future events and decisions by third parties that will determine the ultimate resolution of the contingency. Moreover, it is not uncommon for such matters to be resolved over many years, during which time relevant developments and new information must be reevaluated at least quarterly to determine both the likelihood of potential loss and whether it is possible to reasonably estimate a range of possible loss. When a loss is probable but a reasonable estimate cannot be made, disclosure of the proceeding is provided.

Disclosure also is provided when it is reasonably possible that a loss will be incurred or when it is reasonably possible that the amount of a loss will exceed the recorded provision. We review all contingencies at least quarterly to determine whether the likelihood of loss has changed and to assess whether a reasonable estimate of the loss or range of the loss can be made. As discussed above, development of a meaningful estimate of loss or a range of potential loss is complex when the outcome is directly dependent on negotiations with or decisions by third parties, such as regulatory agencies, the court system and other interested parties. Such factors bear directly on whether it is possible to reasonably estimate a range of potential loss and boundaries of high and low estimate.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

We expect our available cash generated from operations, together with our existing sources of liquidity from our accounts receivable sales facility and short-term borrowings under the revolving credit facility and commercial paper, will be sufficient to fund our long-term and short-term capital expenditures, working capital and other cash requirements. In addition, from time-to-time, we may access the long-term debt capital markets to discharge our other liabilities.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Net cash flow from operating activities was \$2,338 million in 2011 compared to \$2,316 million in 2010 and \$1,351 million in 2009. Operating activities for 2011 included a non-cash charge of \$213 million and the related income tax benefit of \$64 million for the AWP litigation charge. Operating activities for 2011 also reflect an increase in receivables primarily associated with revenue growth, partially offset by improved management of inventories and longer payment terms for certain purchases. Cash flows from operations can also be significantly affected by factors such as the timing of receipts from customers and payments to vendors.

Operating activities for 2010 were primarily affected by improved management of drafts and accounts payable, partially offset by an increase in inventories due to our revenue growth and the AWP litigation private payer settlement payments of \$350 million.

Operating activities for 2009 included a non-cash charge of \$493 million and the related income tax benefit of \$182 million for the AWP litigation charge. Operating activities for 2009 also reflect an increase in receivables primarily associated with our revenue growth as well as longer payment terms for certain customers and improvement in our net financial inventory (inventory, net of drafts and accounts payable).

Net cash used in investing activities was \$624 million in 2011 compared to \$309 million in 2010 and \$727 million in 2009. Investing activities for 2011 included \$292 million of cash payments for business acquisitions, including approximately \$244 million for our acquisition of US Oncology, and \$109 million of cash received from the sale of MAP. Investing activities in 2011 also included \$233 million and \$155 million in capital expenditures for property acquisitions and capitalized software. Investing activities for 2010 included \$199 million and \$179 million in capital expenditures for property acquisitions and capitalized software and the release of \$55 million of restricted cash from escrow related to the AWP private litigation settlement payments. Investing activities for 2009 included \$358 million of cash payments for business acquisitions, including the McQueary Brothers acquisition for approximately \$190 million.

Financing activities utilized cash of \$1,841 million in 2011 and \$421 million in 2010, and provided cash of \$178 million in 2009. Financing activities for 2011 reflect \$1,689 million of cash received from the issuance of long-term debt. In February 2011 we issued \$600 million of 3.25% notes due 2016, \$600 million of 4.75% notes due 2021, and \$500 million of 6.00% notes due 2041. Net proceeds from the issuance of the long-term notes, after discounts and offering expenses, were used to pay off the \$1,730 million of debt assumed as part of the acquisition of US Oncology. Also as part of our acquisition of US Oncology, we borrowed \$1,000 million for bridge financing which was fully repaid by February 2011. Financing activities for 2011 also included \$2,050 million of cash paid for share repurchases, \$171 million of dividends paid and \$367 million of cash receipts from employees' exercises of stock options.

Financing activities for 2010 included \$323 million in cash paid for share repurchases and \$218 million in cash paid on our long-term debt, which primarily consisted of \$215 million paid on the maturity of our 9.13% Series C Senior Notes in March 2010. Financing activities for 2010 also included \$323 million of cash paid for share repurchases, \$131 million of dividends paid and \$212 million of cash receipts from employees' exercises of stock options.

Financing activities for 2009 included our February 2009 issuance of \$350 million of 6.50% notes due 2014 and \$350 million of 7.50% notes due 2019. Net proceeds of \$693 million from the issuance of the notes, after discounts and offering expenses, were used by the Company for general corporate purposes. Financing activities for 2009 also included \$502 million of cash paid for share repurchases, \$116 million of dividends paid and \$97 million of cash receipts from employees' exercises of stock options.

The Company's Board has authorized the repurchase of McKesson's common stock from time-to-time in open market transactions, privately negotiated transactions, through accelerated share repurchase programs, or by any combination of such methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations and other market and economic conditions. As of March 31, 2011, \$500 million remained available for future repurchases under the October 2010 Board approved share repurchase plan. In April 2011, the Board authorized the repurchase of up to an additional \$1.0 billion of the Company's common stock.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

In July 2008, the Board authorized the retirement of shares of the Company's common stock that may be repurchased from time-to-time pursuant to its stock repurchase program. During the second quarter of 2009, all of the 4 million repurchased shares, which we purchased for \$204 million, were formally retired by the Company. The retired shares constitute authorized but unissued shares. We elected to allocate any excess of share repurchase price over par value between additional paid-in capital and retained earnings. As such, \$165 million was recorded as a decrease to retained earnings.

The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon the Company's future earnings, financial condition, capital requirements and other factors.

Although we believe that our operating cash flow, financial assets, current access to capital and credit markets, including our existing credit and sales facilities, will give us the ability to meet our financing needs for the foreseeable future, there can be no assurance that continued or increased volatility and disruption in the global capital and credit markets will not impair our liquidity or increase our costs of borrowing.

Selected Measures of Liquidity and Capital Resources:

<i>(Dollars in millions)</i>	March 31,		
	2011	2010	2009
Cash and cash equivalents	\$ 3,612	\$ 3,731	\$ 2,109
Working capital	3,631	4,492	3,065
Debt, net of cash and cash equivalents	392	(1,434)	403
Debt to capital ratio ⁽¹⁾	35.7%	23.4%	28.9%
Net debt to net capital employed ⁽²⁾	5.1%	(23.5)%	6.1%
Return on stockholders' equity ⁽³⁾	16.9%	18.7%	13.2%

(1) Ratio is computed as total debt divided by total debt and stockholders' equity.

(2) Ratio is computed as total debt, net of cash and cash equivalents ("net debt"), divided by net debt and stockholders' equity ("net capital employed").

(3) Ratio is computed as net income, divided by a five-quarter average of stockholders' equity.

Our cash and equivalents balance as of March 31, 2011, included approximately \$1.8 billion of cash held by our subsidiaries outside of the United States. Our intent is to utilize this cash in the foreign operations as well as to fund certain research and development activities for an indefinite period of time. Although the vast majority of cash held outside the United States is available for repatriation, doing so could subject us to U.S. federal, state and local income tax. During the fourth quarter of 2011 and pursuant to IRS regulations, we temporarily borrowed and repaid \$1.0 billion of cash held by our subsidiaries outside the United States. The duration of this temporary loan to the United States was less than 60 days.

Working capital primarily includes cash and cash equivalents, receivables and inventories, net of drafts and accounts payable, deferred revenue and other current liabilities. Our Distribution Solutions segment requires a substantial investment in working capital that is susceptible to large variations during the year as a result of inventory purchase patterns and seasonal demands. Inventory purchase activity is a function of sales activity and customer requirements.

Consolidated working capital decreased at March 31, 2011 compared to March 31, 2010, primarily due to increases in drafts and accounts payables, accrued liabilities and the current portion of long-term debt, partially offset by an increase in receivables. Consolidated working capital increased at March 31, 2010 compared to March 31, 2009, primarily due to increases in cash and cash equivalents, partially offset by an increase in net financial inventory and repayment of \$215 million of our long-term debt in March 2010.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Our ratio of net debt to net capital employed increased at March 31, 2011, compared to March 31, 2010, primarily due to an increase in total debt as a result of the US Oncology acquisition. This ratio decreased at March 31, 2010, compared to March 31, 2009, primarily reflecting an increase in cash and cash equivalents and repayment of \$215 million of our long-term debt in March 2010.

The Company paid quarterly cash dividends at the rate of \$0.06 per share on its common stock from the fourth quarter of 1999 through the fourth quarter of 2008. In April 2008, the quarterly dividend was raised from \$0.06 to \$0.12 per share and in May 2010, the quarterly dividend was raised to \$0.18 per common share. In April 2011, the Board approved an increase in the quarterly dividend from \$0.18 to \$0.20 per share, applicable to ensuing quarterly dividend declarations. The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon the Company's future earnings, financial condition, capital requirements and other factors. In 2011, 2010 and 2009, we paid total cash dividends of \$171 million, \$131 million and \$116 million.

Contractual Obligations:

The table below presents our significant financial obligations and commitments at March 31, 2011:

(In millions)	Total	Years				
		Within 1	Over 1 to 3	Over 3 to 5	After 5	
On balance sheet						
Long-term debt ⁽¹⁾	\$ 4,004	\$ 417	\$ 861	\$ 606	\$ 2,120	
Other ⁽²⁾	413	32	83	162	136	
Off balance sheet						
Interest on borrowings ⁽³⁾	2,012	224	361	293	1,134	
Purchase obligations ⁽⁴⁾	3,730	3,610	89	31	—	
Operating lease obligations ⁽⁵⁾	844	178	258	167	241	
Customer guarantees ⁽⁶⁾	176	119	24	5	28	
Total	\$ 11,179	\$ 4,580	\$ 1,676	\$ 1,264	\$ 3,659	

(1) Represents maturities of the Company's long-term obligations including an immaterial amount of capital lease obligations.

(2) Represents our estimated benefit payments for the unfunded benefit plans and minimum funding requirements for the pension plans.

(3) Primarily represents interest that will become due on our fixed rate long-term debt obligations.

(4) A purchase obligation is defined as an arrangement to purchase goods or services that is enforceable and legally binding on the Company. These obligations primarily relate to inventory purchases, capital commitments and service agreements.

(5) Represents minimum rental payments for operating leases.

(6) Represents primarily agreements with certain of our Canadian customers' financial institutions under which we have guaranteed the repurchase of our customers' inventory or our customers' debt in the event these customers are unable to meet their obligations to those financial institutions. We also have an agreement with one software customer that, under limited circumstances, may require us to secure standby financing. Because the amount of the standby financing is not explicitly stated, the overall amount of this guarantee cannot reasonably be estimated. At March 31, 2011, the maximum amounts of inventory repurchase guarantees and customers' debt guarantees were \$138 million and \$38 million, none of which had been accrued.

At March 31, 2011, the liability recorded for uncertain tax positions, excluding associated interest and penalties, was approximately \$485 million. Since the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty, the estimated liability has been excluded from the contractual obligations table.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

In addition, at March 31, 2011, our banks and insurance companies have issued \$128 million of standby letters of credit and surety bonds, which were issued on our behalf mostly related to our customer contracts and in order to meet the security requirements for statutory licenses and permits, court and fiduciary obligations and our workers' compensation and automotive liability programs.

Credit Resources:

We fund our working capital requirements primarily with cash and cash equivalents, our accounts receivable sales facility, short-term borrowings under the revolving credit facility and commercial paper.

Senior Bridge Term Loan Facility

In connection with our execution of an agreement to acquire US Oncology, in November 2010, we entered into a \$2.0 billion unsecured Senior Bridge Term Loan Agreement ("Bridge Loan"). In December 2010, we reduced the Bridge Loan commitment to \$1.0 billion. On January 31, 2011, we borrowed \$1.0 billion under the Bridge Loan. On February 28, 2011, we repaid the funds obtained under the Bridge Loan with long-term debt, as further described below, and the Senior Bridge Term Loan Agreement was terminated. During the time it was outstanding, the Bridge Loan bore interest of 1.76%, which was based on the London Interbank Offered Rate plus a margin based on the Company's credit rating. Bridge Loan fees of \$25 million were included in Corporate interest expense.

US Oncology Debt Acquired

Upon our purchase of US Oncology in December 2010, we assumed the outstanding debt of US Oncology Holdings, Inc. and its wholly-owned subsidiary US Oncology, Inc. Immediately prior to our acquisition, US Oncology Holdings, Inc. called for redemption all of its outstanding Senior Unsecured Floating Rate Toggle Notes due 2012, and US Oncology, Inc. called for redemption all of its outstanding 9.125% Senior Secured Notes due 2017 and 10.75% Senior Subordinated Notes due 2014. In the fourth quarter of 2011, we paid interest of \$50 million and redeemed these notes, including the remaining accrued interest, for \$1,738 million using cash on hand and borrowings under our Bridge Loan.

Long-Term Debt

On February 28, 2011, we issued 3.25% notes due March 1, 2016 in an aggregate principal amount of \$600 million, 4.75% notes due March 1, 2021 in an aggregate principal amount of \$600 million and 6.00% notes due March 1, 2041 in an aggregate principal amount of \$500 million. Interest is payable on March 1 and September 1 of each year beginning on September 1, 2011. We utilized net proceeds, after discounts and offering expenses, of \$1,673 million from the issuance of these notes for general corporate purposes, including the repayment of borrowings under the Bridge Loan. On February 12, 2009, we issued 6.50% notes due February 15, 2014, in an aggregate principal amount of \$350 million and 7.50% notes due February 15, 2019, in an aggregate principal amount of \$350 million. Interest is payable on February 15 and August 15 of each year. We utilized net proceeds, after discounts and offering expenses, of \$693 million from the issuance of these notes for general corporate purposes.

In March 2010, we repaid our \$215 million 9.13% Series C Senior notes, which had matured.

Accounts Receivable Sales Facility

In May 2010, we renewed our accounts receivable sales facility (the "Facility") for an additional one year period under terms substantially similar to those previously in place, and in doing so we increased our committed balance from \$1.1 billion to \$1.35 billion. From time-to-time, the available amount of the Facility may be less than \$1.35 billion based on accounts receivable concentration limits and other eligibility requirements. The renewed Facility will expire in May 2011. We anticipate renewing this Facility before its expiration. At March 31, 2011, there were no securitized accounts receivable balances or secured borrowings outstanding under the Facility. As of March 31, 2010, there were no accounts receivable sold under the Facility. Additionally, there were no sales of interests to third-party purchaser groups in the year ended March 31, 2011.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Additional information regarding our accounts receivable sales facility is included in Financial Notes 1 and 11, “Significant Accounting Policies” and “Debt and Financing Activities,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Revolving Credit Facility

We have a syndicated \$1.3 billion five-year senior unsecured revolving credit facility, which expires in June 2012. Borrowings under this credit facility bear interest based upon either a Prime rate or the London Interbank Offered Rate. There were no borrowings under this facility in 2011 and 2010 and \$279 million for 2009. As of March 31, 2011 and 2010, there were no amounts outstanding under this facility.

Commercial Paper

There were no commercial paper issuances during 2011 and 2010 and no amount outstanding at March 31, 2011 and 2010. We issued and repaid \$3.3 billion of commercial paper in 2009.

Debt Covenant

Our various borrowing facilities and long-term debt are subject to certain covenants. Our principal debt covenant is our debt to capital ratio under our unsecured revolving credit facility, which cannot exceed 56.5%. If we exceed this ratio, repayment of debt outstanding under the revolving credit facility could be accelerated. As of March 31, 2011, this ratio was 35.7% and we were in compliance with our other financial covenants. A reduction in our credit ratings, or the lack of compliance with our covenants, could negatively impact our ability to finance operations or issue additional debt at acceptable interest rates.

Funds necessary for future debt maturities and our other cash requirements are expected to be met by existing cash balances, cash flow from operations, existing credit sources and other capital market transactions.

RELATED PARTY BALANCES AND TRANSACTIONS

Information regarding our related party balances and transactions is included in Financial Note 19, “Related Party Balances and Transactions,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

NEW ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements that we have recently adopted, as well as those that have been recently issued but not yet adopted by us, are included in Financial Note 1, “Significant Accounting Policies,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

McKESSON CORPORATION**FINANCIAL REVIEW (Concluded)****Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

Interest rate risk: Our long-term debt bears interest predominately at fixed rates, whereas our short-term borrowings are at variable interest rates. If the underlying weighted average interest rate on our variable rate debt were to have changed by a hypothetical 50 bp in 2011, interest expense would not have been materially different from that reported.

Our cash and cash equivalents balances earn interest at variable rates. Should interest rates decline, our interest income may be negatively impacted. If the underlying weighted average interest rate on our cash and cash equivalents balances changed by 50 bp in 2011, interest income would have increased or decreased by approximately \$17 million. The selected hypothetical change in interest rates does not reflect what could be considered the best or worst case scenarios.

As of March 31, 2011 and 2010, the net fair value liability of financial instruments with exposure to interest rate risk was approximately \$4.3 billion and \$2.5 billion. The estimated fair value of our long-term debt and other financing was determined using quoted market prices and other inputs that were derived from available market information and may not be representative of actual values that could have been realized or that will be realized in the future. Fair value is subject to fluctuations based on our performance, our credit ratings, changes in the value of our stock and changes in interest rates for debt securities with similar terms.

Foreign exchange risk: We derive revenues and earnings from Canada, the United Kingdom, Ireland, other European countries, Israel and Mexico, which exposes us to changes in foreign exchange rates. We seek to manage our foreign exchange risk in part through operational means, including managing same currency revenues in relation to same currency costs, and same currency assets in relation to same currency liabilities. Foreign exchange risk is also managed through the use of foreign currency forward-exchange contracts. These contracts are used to offset the potential earnings effects from mostly intercompany foreign currency investments and loans. As of March 31, 2011, a hypothetical adverse 10% change in quoted foreign currency exchange rates would not have had a material impact on our net fair value of financial instruments that have exposure to foreign currency risk.

McKESSON CORPORATION

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL INFORMATION

	<u>Page</u>
Management's Annual Report on Internal Control Over Financial Reporting	52
Report of Independent Registered Public Accounting Firm	53
Consolidated Financial Statements:	
Consolidated Statements of Operations for the years ended March 31, 2011, 2010 and 2009	54
Consolidated Balance Sheets as of March 31, 2011 and 2010	55
Consolidated Statements of Stockholders' Equity for the years ended March 31, 2011, 2010 and 2009	56
Consolidated Statements of Cash Flows for the years ended March 31, 2011, 2010 and 2009	57
Financial Notes	58

McKESSON CORPORATION

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of McKesson Corporation is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). With the participation of the Chief Executive Officer and the Chief Financial Officer, our management conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework and criteria established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management has concluded that our internal control over financial reporting was effective as of March 31, 2011.

Deloitte & Touche LLP, an independent registered public accounting firm, audited the financial statements included in this Annual Report on Form 10-K and has also audited the effectiveness of the Company's internal control over financial reporting as of March 31, 2011. This audit report appears on page 53 of this Annual Report on Form 10-K.

May 5, 2011

/s/ John H. Hammergren

John H. Hammergren

Chairman, President and Chief Executive Officer
(Principal Executive Officer)

/s/ Jeffrey C. Campbell

Jeffrey C. Campbell

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

McKESSON CORPORATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of McKesson Corporation:

We have audited the accompanying consolidated balance sheets of McKesson Corporation and subsidiaries (the "Company") as of March 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three fiscal years in the period ended March 31, 2011. Our audits also included the consolidated financial statement schedule ("financial statement schedule") listed in the Index at Item 15(a). We also have audited the Company's internal control over financial reporting as of March 31, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Annual Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on these financial statements and financial statement schedule, and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of McKesson Corporation and subsidiaries as of March 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three fiscal years in the period ended March 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2011, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP
San Francisco, California
May 5, 2011

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share amounts)

	Years Ended March 31,		
	2011	2010	2009
Revenues	\$ 112,084	\$ 108,702	\$ 106,632
Cost of Sales	106,114	103,026	101,254
Gross Profit	5,970	5,676	5,378
Operating Expenses			
Selling	767	746	743
Distribution	920	882	943
Research and development	407	376	364
Administrative	1,842	1,684	1,639
Litigation charge (credit), net	213	(20)	493
Total Operating Expenses	4,149	3,668	4,182
Operating Income	1,821	2,008	1,196
Other Income, Net	36	43	12
Interest Expense	(222)	(187)	(144)
Income from Continuing Operations Before Income Taxes	1,635	1,864	1,064
Income Tax Expense	(505)	(601)	(241)
Income from Continuing Operations	1,130	1,263	823
Discontinued Operation – gain on sale, net of tax	72	—	—
Net Income	\$ 1,202	\$ 1,263	\$ 823
Earnings Per Common Share			
Diluted			
Continuing operations	\$ 4.29	\$ 4.62	\$ 2.95
Discontinued operation – gain on sale	0.28	—	—
Total	\$ 4.57	\$ 4.62	\$ 2.95
Basic			
Continuing operations	\$ 4.37	\$ 4.70	\$ 2.99
Discontinued operation – gain on sale	0.28	—	—
Total	\$ 4.65	\$ 4.70	\$ 2.99
Weighted Average Common Shares			
Diluted	263	273	279
Basic	258	269	275

See Financial Notes

McKESSON CORPORATION

CONSOLIDATED BALANCE SHEETS
(In millions, except per share amounts)

	March 31,	
	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 3,612	\$ 3,731
Receivables, net	9,187	8,075
Inventories, net	9,225	9,441
Prepaid expenses and other	333	257
Total	<u>22,357</u>	<u>21,504</u>
Property, Plant and Equipment, Net	991	851
Capitalized Software Held for Sale, Net	152	234
Goodwill	4,364	3,568
Intangible Assets, Net	1,456	551
Other Assets	1,566	1,481
Total Assets	<u>\$ 30,886</u>	<u>\$ 28,189</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Drafts and accounts payable	\$ 14,090	\$ 13,255
Deferred revenue	1,321	1,218
Deferred tax liabilities	1,037	977
Current portion of long-term debt	417	3
Other accrued liabilities	1,861	1,559
Total	<u>18,726</u>	<u>17,012</u>
Long-Term Debt	3,587	2,293
Other Noncurrent Liabilities	1,353	1,352
Other Commitments and Contingent Liabilities (Note 17)		
Stockholders' Equity		
Preferred stock, \$0.01 par value, 100 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.01 par value		
Shares authorized: 2011 and 2010 – 800		
Shares issued: 2011 – 369, 2010 – 359	4	4
Additional Paid-in Capital	5,339	4,756
Retained Earnings	8,250	7,236
Accumulated Other Comprehensive Income	87	6
Other	10	(12)
Treasury Shares, at Cost, 2011 – 117 and 2010 – 88	<u>(6,470)</u>	<u>(4,458)</u>
Total Stockholders' Equity	<u>7,220</u>	<u>7,532</u>
Total Liabilities and Stockholders' Equity	<u>\$ 30,886</u>	<u>\$ 28,189</u>

See Financial Notes

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended March 31, 2011, 2010 and 2009
(In millions, except per share amounts)

	Common Stock		Additional Paid-in Capital	Other Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	ESOP Notes and Guarantee	Treasury		Stockholders' Equity	Other Comprehensive Income (Loss)
	Shares	Amount						Common Shares	Amount		
Balances, March 31, 2008	351	\$ 4	\$ 4,252	\$ (10)	\$ 5,586	\$ 152	\$ (3)	(74)	\$ (3,860)	\$ 6,121	
Issuance of shares under employee plans	4		97						(19)	78	
ESOP funding									15	15	
Share-based compensation			99							99	
Tax benefit related to issuance of shares under employee plans			8							8	
ESOP note collections							2			2	
Translation adjustments						(273)				(273)	(273)
Unrealized net loss and other components of benefit plans, net of tax benefit of \$33						(57)				(57)	(57)
Net income					823					823	823
Repurchase and retirement of common stock	(4)		(39)		(165)			(6)	(280)	(484)	
Cash dividends declared, \$0.48 per common share					(134)					(134)	
Other				3	(7)	(1)				(5)	
Balances, March 31, 2009	351	\$ 4	\$ 4,417	\$ (7)	\$ 6,103	\$ (179)	\$ (1)	(80)	\$ (4,144)	\$ 6,193	\$ 493
Issuance of shares under employee plans	8		218					(1)	(24)	194	
Share-based compensation			114							114	
Tax benefit related to issuance of shares under employee plans			11							11	
ESOP note collections							1			1	
Translation adjustments						238				238	238
Unrealized net loss and other components of benefit plans, net of tax benefit of \$32						(53)				(53)	(53)
Net income					1,263					1,263	1,263
Repurchase of common stock								(7)	(299)	(299)	
Cash dividends declared, \$0.48 per common share					(131)					(131)	
Other			(4)	(5)	1				9	1	
Balances, March 31, 2010	359	\$ 4	\$ 4,756	\$ (12)	\$ 7,236	\$ 6	\$ —	(88)	\$ (4,458)	\$ 7,532	\$ 1,448
Issuance of shares under employee plans	10		370						(17)	353	
Share-based compensation			137							137	
Tax benefit related to issuance of shares under employee plans			113							113	
Translation adjustments						76				76	76
Net income					1,202					1,202	1,202
Repurchase of common stock			(37)					(29)	(1,995)	(2,032)	
Cash dividends declared, \$0.72 per common share					(188)					(188)	
Other				22		5				27	5
Balances, March 31, 2011	369	\$ 4	\$ 5,339	\$ 10	\$ 8,250	\$ 87	\$ —	(117)	\$ (6,470)	\$ 7,220	\$ 1,283

See Financial Notes

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Years Ended March 31,		
	2011	2010	2009
Operating Activities			
Net income	\$ 1,202	\$ 1,263	\$ 823
Discontinued operation – gain on sale, net of tax	(72)	—	—
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation	139	148	133
Amortization	357	326	308
Provision for bad debts	18	17	29
Other deferred taxes	184	161	320
Share-based compensation expense	137	114	99
Impairment of capitalized software held for sale	72	—	—
Impairment of investments	—	—	63
Other non-cash items	12	(20)	(99)
Changes in operating assets and liabilities, net of business acquisitions:			
Receivables	(673)	(133)	(708)
Inventories	367	(782)	370
Drafts and accounts payable	533	1,340	(189)
Deferred revenue	42	27	(55)
Taxes	33	88	(47)
Litigation charge (credit)	213	(20)	493
Litigation settlement payments	(26)	(350)	—
Deferred tax (benefit) expense on litigation	(56)	116	(172)
Other	(144)	21	(17)
Net cash provided by operating activities	2,338	2,316	1,351
Investing Activities			
Property acquisitions	(233)	(199)	(195)
Capitalized software expenditures	(155)	(179)	(197)
Acquisitions of businesses, less cash and cash equivalents acquired	(292)	(18)	(358)
Proceeds from sale of businesses	109	1	63
Restricted cash for litigation charge, net	—	55	(55)
Other	(53)	31	15
Net cash used in investing activities	(624)	(309)	(727)
Financing Activities			
Proceeds from short-term borrowings	1,000	5	3,630
Repayments of short-term borrowings	(1,000)	(6)	(3,630)
Proceeds from issuances of long-term debt	1,689	—	699
Repayments of long-term debt	(1,730)	(218)	(4)
Common stock transactions:			
Issuances	367	212	97
Share repurchases, including shares surrendered for tax withholding	(2,050)	(323)	(298)
Share repurchases, retirements	—	—	(204)
Dividends paid	(171)	(131)	(116)
Other	54	40	4
Net cash provided by (used in) financing activities	(1,841)	(421)	178
Effect of exchange rate changes on cash and cash equivalents	8	36	(55)
Net increase (decrease) in cash and cash equivalents	(119)	1,622	747
Cash and cash equivalents at beginning of year	3,731	2,109	1,362
Cash and cash equivalents at end of year	\$ 3,612	\$ 3,731	\$ 2,109
Supplemental Cash Flow Information			
Cash paid for:			
Interest	\$ 244	\$ 188	\$ 139
Income taxes, net of refunds	347	234	235
Non-cash item:			
Fair value of acquisition debt assumed	\$ (1,891)	\$ —	\$ —

See Financial Notes

McKESSON CORPORATION

FINANCIAL NOTES

1. Significant Accounting Policies

Nature of Operations: McKesson Corporation (“McKesson,” the “Company,” or “we” and other similar pronouns) is a corporation that delivers medicines, pharmaceutical supplies, information and care management products and services designed to reduce costs and improve quality across the healthcare industry. We conduct our business through two operating segments, McKesson Distribution Solutions and McKesson Technology Solutions, as further described in Financial Note 20, “Segments of Business.”

Basis of Presentation: The consolidated financial statements and accompanying notes are prepared in accordance with U. S. generally accepted accounting principles (“GAAP”). The consolidated financial statements of McKesson include the financial statements of all wholly-owned subsidiaries and majority-owned or controlled companies. We evaluate our ownership, contractual and other interests in entities to determine if they are variable interest entities (“VIEs”), if we have a variable interest in those entities and the nature and extent of those interests. These evaluations are highly complex and involve judgment and the use of estimates and assumptions based on available historical information and management’s judgment, among other factors. Intercompany transactions and balances have been eliminated.

Fiscal Period: The Company’s fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references to a particular year shall mean the Company’s fiscal year.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation.

Use of Estimates: The preparation of financial statements in conformity with U.S. GAAP requires that we make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual amounts could differ from those estimated amounts.

Cash and Cash Equivalents: All highly liquid debt instruments purchased with original maturity of three months or less at the date of acquisition are included in cash and cash equivalents.

We maintain cash and cash equivalents with several financial institutions. Bank deposits may exceed the amount of federal deposit insurance; however, domestic non-interest bearing deposit transaction amounts are fully insured by the Federal Deposit Insurance Corporation regardless of the dollar amount. Cash equivalents may be invested in money market funds. We mitigate the risk of our short-term investment portfolio by investing the majority of funds in U.S. government securities, depositing funds with reputable financial institutions and monitoring risk profiles and investment strategies of money market funds.

Restricted Cash: Cash that is subject to legal restrictions or is unavailable for general operating purposes is classified as restricted cash and is included within prepaid expenses and other in the consolidated balance sheets. At March 31, 2011 and 2010, restricted cash was not material.

Marketable Securities Available for Sale: We carry our marketable securities, which are available for sale, at fair value and they are included in prepaid expenses and other in the consolidated balance sheets. The net unrealized gains and losses, net of the related tax effect, computed in marking these securities to market have been reported within stockholders’ equity. At March 31, 2011 and 2010, marketable securities were not material.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Concentrations of Credit Risk and Receivables: Our trade receivables are subject to a concentration of credit risk with customers primarily in our Distribution Solutions segment. During 2011, sales to our ten largest customers accounted for approximately 51% of our total consolidated revenues. Sales to our two largest customers, CVS Caremark Corporation (“CVS”) and Rite Aid Corporation (“Rite Aid”), accounted for approximately 14% and 11% of our total consolidated revenues. At March 31, 2011, accounts receivable from our ten largest customers were approximately 43% of total accounts receivable. Accounts receivable from CVS, Wal-Mart Stores, Inc. (“Walmart”) and Rite Aid were approximately 13%, 10% and 9% of total accounts receivable. As a result, our sales and credit concentration is significant. A default in payment, a material reduction in purchases from these, or any other large customers or the loss of a large customer could have a material adverse impact on our financial condition, results of operations and liquidity. In addition, trade receivables are subject to a concentration of credit risk with customers in the institutional, retail and healthcare provider sectors, which can be affected by a downturn in the economy and changes in reimbursement policies. This credit risk is mitigated by the size and diversity of the customer base as well as its geographic dispersion. We estimate the receivables for which we do not expect full collection based on historical collection rates and ongoing evaluations of the creditworthiness of our customers. An allowance is recorded in our consolidated financial statements for these amounts.

Financing Receivables: We assess and monitor credit risk associated with financing receivables, namely lease and notes receivables, through regular review of our collection experience in determining our allowance for loan losses. On an ongoing basis, we also evaluate credit quality of our financing receivables utilizing aging of receivables and write-offs, as well as consider existing economic conditions, to determine if an allowance is necessary. As of March 31, 2011, financing receivables and the related allowance were not material to our consolidated financial statements.

Inventories: We report inventories at the lower of cost or market (“LCM”). Inventories for our Distribution Solutions segment consist of merchandise held for resale. For our Distribution Solutions segment, the majority of the cost of domestic inventories is determined using the last-in, first-out (“LIFO”) method and the cost of Canadian inventories is determined using the first-in, first-out (“FIFO”) method. Technology Solutions segment inventories consist of computer hardware with cost determined by the standard cost method. Rebates, fees, cash discounts, allowances, chargebacks and other incentives received from vendors are generally accounted for as a reduction in the cost of inventory and are recognized when the inventory is sold.

The LIFO method was used to value approximately 87% of our inventories at March 31, 2011 and 2010. At March 31, 2011 and 2010, our LIFO reserves, net of LCM adjustments, were \$96 million and \$93 million. LIFO reserves include both pharmaceutical and non-pharmaceutical products. In 2011, 2010 and 2009, we recognized net LIFO expense of \$3 million, \$8 million and \$8 million within our consolidated statements of operations. In 2011, our \$3 million net LIFO expense related to our non-pharmaceutical products. A LIFO expense is recognized when the net effect of price increases on branded pharmaceuticals and non-pharmaceutical products held in inventory exceeds the impact of price declines and shifts towards generic pharmaceuticals, including the effect of branded pharmaceutical products that have lost market exclusivity. A LIFO credit is recognized when the net effect of price declines and shifts towards generic pharmaceuticals exceeds the impact of price increases on branded pharmaceuticals and non-pharmaceutical products held in inventory.

We believe that the FIFO inventory costing method provides a reasonable estimation of the current cost of replacing inventory (i.e., “market”). As such, our LIFO inventory is valued at the lower of LIFO or inventory as valued under FIFO. Primarily due to continued net deflation in generic pharmaceutical inventories, pharmaceutical inventories at LIFO were \$156 million and \$112 million higher than FIFO as of March 31, 2011 and 2010. As a result, in 2011 and 2010, we recorded LCM charges of \$44 million and \$5 million in cost of sales within our consolidated statements of operations to adjust our LIFO inventories to market.

Shipping and Handling Costs: We include all costs to warehouse, pick, pack and deliver inventory to our customers in distribution expenses.

Property, Plant and Equipment: We state our property, plant and equipment at cost and depreciate them under the straight-line method at rates designed to distribute the cost of properties over estimated service lives ranging from one to 30 years.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Capitalized Software Held for Sale: Development costs for software held for sale, which primarily pertain to our Technology Solutions segment, are capitalized once a project has reached the point of technological feasibility. Completed projects are amortized after reaching the point of general availability using the straight-line method based on an estimated useful life of approximately three years. At each balance sheet date, or earlier if an indicator of an impairment exists, we evaluate the recoverability of unamortized capitalized software costs based on estimated future undiscounted revenues net of estimated related costs over the remaining amortization period. At the end of the second quarter of 2010, our Horizon Enterprise Revenue Management TM (“HzERM”) software product became generally available. In October 2010, we decreased our estimated revenues over the next 24 months for our HzERM software product and as a result, concluded that the estimated future revenues, net of estimated related costs, were insufficient to recover its carrying value. Accordingly, we recorded a \$72 million non-cash impairment charge in the second quarter of 2011 within our Technology Solutions segment’s cost of sales to reduce the carrying value of the software product to its net realizable value.

Additional information regarding our capitalized software expenditures is as follows:

(In millions)	Years Ended March 31,		
	2011	2010	2009
Amounts capitalized	\$ 64	\$ 75	\$ 74
Amortization expense	75	67	50
Impairment charge	72	—	—
Third-party royalty fees paid	72	63	50

Goodwill: Goodwill is tested for impairment on an annual basis or more frequently if indicators for potential impairment exist. Impairment testing is conducted at the reporting unit level, which is generally defined as a component - one level below our Distribution Solutions and Technology Solutions operating segments, for which discrete financial information is available and segment management regularly reviews the operating results of that unit. Components that have essentially similar operations, products, services and customers are aggregated as a single reporting unit.

Impairment tests require that we first compare the carrying value of our reporting units to the estimated fair value of the reporting units. If the carrying value exceeds the fair value, a second step is performed to calculate the amount of impairment, which would be recorded as a charge in the consolidated statements of operations. The fair value of a reporting unit is based upon a number of considerations including projections of revenues, earnings and discounted cash flows and determination of market value multiples for similar businesses or guideline companies whose securities are actively traded in public markets. The discount rate used for cash flows reflects capital market conditions and the specific risks associated with the business. In addition, we compare the aggregate of the reporting units’ fair value to the Company’s market capitalization as a further corroboration of the fair value. The testing requires a complex series of assumptions and judgment by management in projecting future operating results, selecting guideline companies for comparisons and assessing risks. The use of alternative assumptions and estimates could affect the fair values and change the impairment determinations. There were no goodwill impairments during 2011, 2010, or 2009.

Intangible assets: Currently all of our intangible assets are subject to amortization and are generally amortized on a straight line basis over their estimated useful lives, ranging from one to twenty years. We review identifiable amortizable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Determination of recoverability is based on the lowest level of identifiable estimated undiscounted cash flows resulting from use of the asset and its eventual disposition. Measurement of any impairment loss is based on the excess of the carrying value of the asset over its fair value. There were no material impairments of intangible assets during 2011, 2010 or 2009.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Capitalized Software Held for Internal Use: We capitalize costs of software held for internal use during the application development stage of a project and amortize those costs over the assets' estimated useful lives ranging from one to ten years. As of March 31, 2011 and 2010, capitalized software held for internal use was \$446 million and \$483 million, net of accumulated amortization of \$778 million and \$665 million, and was included in other assets in the consolidated balance sheets.

Insurance Programs: Under our insurance programs, we seek to obtain coverage for catastrophic exposures as well as those risks required to be insured by law or contract. It is our policy to retain a significant portion of certain losses primarily related to workers' compensation and comprehensive general, product and vehicle liability. Provisions for losses expected under these programs are recorded based upon our estimate of the aggregate liability for claims incurred as well as for claims incurred but not yet reported. Such estimates utilize certain actuarial assumptions followed in the insurance industry.

Revenue Recognition: Revenues for our Distribution Solutions segment are recognized when product is delivered and title passes to the customer or when services have been rendered and there are no further obligations to customers.

Revenues are recorded net of sales returns, allowances, rebates and other incentives. Our sales return policy generally allows customers to return products only if they can be resold for value or returned to suppliers for full credit. Sales returns are accrued based on estimates at the time of sale to the customer. Sales returns from customers were approximately \$1.4 billion in 2011, and \$1.2 billion in 2010 and 2009. Taxes collected from customers and remitted to governmental authorities are presented on a net basis; that is, they are excluded from revenues.

The revenues for our Distribution Solutions segment include large volume sales of pharmaceuticals to a limited number of large customers who warehouse their own product. We order bulk product from the manufacturer, receive and process the product through our central distribution facility and deliver the bulk product (generally in the same form as received from the manufacturer) directly to our customers' warehouses. Sales to customers' warehouses amounted to \$18.6 billion in 2011, \$21.4 billion in 2010, and \$25.8 billion in 2009. We also record revenues for direct store deliveries from most of these same customers. Direct store deliveries are shipments from the manufacturer to our customers of a limited category of products that require special handling. We assume the primary liability to the manufacturer for these products.

Revenues are recorded gross when we are the primary party obligated in the transaction, take title to and possession of the inventory, are subject to inventory risk, have latitude in establishing prices, assume the risk of loss for collection from customers as well as delivery or return of the product, are responsible for fulfillment and other customer service requirements, or the transactions have several but not all of these indicators.

Our Distribution Solutions segment also engages in multiple-element arrangements, which may contain a combination of various products and services. Revenue from a multiple element arrangement is allocated to the separate elements based on estimates of fair value and recognized in accordance with the revenue recognition criteria applicable to each element. If fair value cannot be established for any undelivered element, all of the arrangement's revenue is deferred until delivery of the last element has occurred and services have been performed or until fair value can objectively be determined for any remaining undelivered elements.

Revenues for our Technology Solutions segment are generated primarily by licensing software and software systems (consisting of software, hardware and maintenance support), and providing outsourcing and professional services. Revenue for this segment is recognized as follows:

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Software systems are marketed under information systems agreements as well as service agreements. Perpetual software arrangements are recognized at the time of delivery or under the percentage-of-completion method based on the terms and conditions in the contract. Contracts accounted for under the percentage-of-completion method are generally measured based on the ratio of labor costs incurred to date to total estimated labor costs to be incurred. Changes in estimates to complete and revisions in overall profit estimates on these contracts are charged to earnings in the period in which they are determined. We accrue for contract losses if and when the current estimate of total contract costs exceeds total contract revenue.

Hardware revenues are generally recognized upon delivery. Revenue from multi-year software license agreements is recognized ratably over the term of the agreement. Software implementation fees are recognized as the work is performed or under the percentage-of-completion method. Maintenance and support agreements are marketed under annual or multi-year agreements and are recognized ratably over the period covered by the agreements. Subscription, content and transaction processing fees are generally marketed under annual and multi-year agreements and are recognized ratably over the contracted terms beginning on the service start date for fixed fee arrangements and recognized as transactions are performed beginning on the service start date for per-transaction fee arrangements. Remote processing service fees are recognized monthly as the service is performed. Outsourcing service revenues are recognized as the service is performed.

We also offer certain products on an application service provider basis, making our software functionality available on a remote hosting basis from our data centers. The data centers provide system and administrative support, as well as hosting services. Revenue on products sold on an application service provider basis is recognized on a monthly basis over the term of the contract beginning on the service start date of products hosted.

This segment also engages in multiple-element arrangements, which may contain any combination of software, hardware, implementation or consulting services, or maintenance services. When some elements are delivered prior to others in an arrangement and vendor-specific objective evidence of fair value ("VSOE") exists for the undelivered elements, revenue for the delivered elements is recognized upon delivery of such items. The segment establishes VSOE for hardware and implementation and consulting services based on the price charged when sold separately, and for maintenance services, based on renewal rates offered to customers. Revenue for the software element is recognized under the residual method only when fair value has been established for all of the undelivered elements in an arrangement. If fair value cannot be established for any undelivered element, all of the arrangement's revenue is deferred until the delivery of the last element or until the fair value of the undelivered element is determinable.

Our Technology Solutions segment also includes revenues from disease management programs provided to various states' Medicaid programs. These service contracts include provisions for achieving certain cost-savings and clinical targets. If the targets are not met for certain of these contracts, a portion, or all, of the revenue must be refunded to the customer. We recognize revenue during the term of the contract by assessing actual performance against contractual targets and then determining the amount the customer would be legally obligated to pay if the contract terminated as of the measurement date. These assessments include estimates of medical claims and other data in accordance with the contract methodology. Because complete data is unavailable until six to nine months after the measurement period, there is generally a significant time delay between recording the accrual and the final settlement of the contract. If data is insufficient to assess performance or we have not met the targets, we defer recognition of the revenue. As of March 31, 2011 and 2010, we had deferred \$25 million and \$26 million related to these types of contracts, which was included in deferred revenue in the consolidated balance sheets. We generally have been successful in achieving performance targets under these agreements.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Supplier Incentives: Fees for service and other incentives received from suppliers, relating to the purchase or distribution of inventory, are generally reported as a reduction to cost of goods sold. We consider these fees and other incentives to represent product discounts and as a result, the amounts are recorded as a reduction of product cost and are recognized through cost of goods sold upon the sale of the related inventory.

Supplier Reserves: We establish reserves against amounts due from suppliers relating to various price and rebate incentives, including deductions or billings taken against payments otherwise due to them. These reserve estimates are established based on judgment after considering the status of current outstanding claims, historical experience with the suppliers, the specific incentive programs and any other pertinent information available. We evaluate the amounts due from suppliers on a continual basis and adjust the reserve estimates when appropriate based on changes in factual circumstances. As of March 31, 2011 and 2010, supplier reserves were \$102 million and \$89 million. The ultimate outcome of any outstanding claim may be different than our estimate. All of the supplier reserves at March 31, 2011 and 2010 pertain to our Distribution Solutions segment.

Income Taxes: We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statements and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Tax benefits from uncertain tax positions are recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The amount recognized is measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon effective settlements. Deferred taxes are not provided on undistributed earnings of our foreign operations that are considered to be permanently reinvested.

Foreign Currency Translation: Our international subsidiaries generally consider their local currency to be their functional currency. Assets and liabilities of these international subsidiaries are translated into U.S. dollars at year-end exchange rates and revenues and expenses are translated at average exchange rates during the year. Cumulative currency translation adjustments are included in accumulated other comprehensive income or losses in the stockholders' equity section of the consolidated balance sheets. Realized gains and losses from currency exchange transactions are recorded in operating expenses in the consolidated statements of operations and were not material to our consolidated results of operations in 2011, 2010 or 2009.

Derivative Financial Instruments: Derivative financial instruments are used principally in the management of foreign currency and interest rate exposures and are recorded on the consolidated balance sheets at fair value. If a derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized as a charge or credit to earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in accumulated other comprehensive income or losses and are recognized in the consolidated statements of operations when the hedged item affects earnings. We periodically evaluate hedge effectiveness and ineffective portions of changes in the fair value of cash flow hedges are recognized as a charge or credit to earnings. Derivative instruments not designated as hedges are marked-to-market at the end of each accounting period with the change included in earnings. The volume of activity related to derivative financial instruments was not material for 2011, 2010 and 2009.

Accounts Receivable Sales: At March 31, 2011, we had a \$1.35 billion accounts receivable sales facility ("the Facility"). Through this Facility, McKesson Corporation, the parent company, transfers certain U.S. pharmaceutical trade accounts receivable on a non-recourse basis to a wholly-owned and consolidated subsidiary, which then sells these receivables to a special purpose entity ("SPE"), which is a wholly-owned, bankruptcy-remote subsidiary of McKesson Corporation that is consolidated in our financial statements. This SPE then sells undivided interests in the pool of accounts receivable to third-party purchaser groups, (the "Purchaser Groups"), which include financial institutions and commercial paper conduits.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Prior to April 1, 2010, sales of undivided interests in the receivables by the SPE to the Purchaser Groups were accounted for as sales because we had relinquished control of the receivables. Accounts receivable sold under these transactions were excluded from receivables, net in the accompanying consolidated balance sheets. Fee charges from the Purchaser Groups were recorded within administrative expenses in the consolidated statements of operations.

On April 1, 2010, we adopted amended accounting guidance for transfers of financial assets, including securitization transactions, in which entities have continued exposure to risks related to transferred financial assets. This amendment changed the requirements for derecognizing financial assets and expanded the disclosure requirements for such transactions. The operations of the Facility did not change, however as a result of the amended accounting guidance from April 1, 2010 forward, accounts receivable transactions under our Facility are accounted for as secured borrowings rather than asset sales. Accounts receivable continue to be recognized on our consolidated balance sheet and proceeds from the Purchaser groups are shown as secured borrowings. Commencing in 2011, fee charges from the Purchaser Groups are recorded as interest expense in the consolidated statements of operations.

Share-Based Compensation: We account for all share-based compensation transactions using a fair-value based measurement method. The share-based compensation expense is recognized, for the portion of the awards that is ultimately expected to vest, on a straight-line basis over the requisite service period for those awards with graded vesting and service conditions. For awards with performance conditions and multiple vest dates, we recognize the expense on a graded vesting basis. For awards with performance conditions and a single vest date, we recognize the expense on a straight-line basis. The compensation expense recognized has been classified in the consolidated statements of operations or capitalized on the consolidated balance sheets in the same manner as cash compensation paid to our employees.

Loss Contingencies: We are subject to various claims, other pending and potential legal actions for damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of our business. When a loss is considered probable and reasonably estimable, we record a liability in the amount of our best estimate for the ultimate loss. However, the likelihood of a loss with respect to a particular contingency is often difficult to predict and determining a meaningful estimate of the loss or a range of loss may not be practicable based on the information available and the potential effect of future events and decisions by third parties that will determine the ultimate resolution of the contingency. Moreover, it is not uncommon for such matters to be resolved over many years, during which time relevant developments and new information must be reevaluated at least quarterly to determine both the likelihood of potential loss and whether it is possible to reasonably estimate a range of possible loss. When a loss is probable but a reasonable estimate cannot be made, disclosure of the proceeding is provided.

Disclosure also is provided when it is reasonably possible that a loss will be incurred or when it is reasonably possible that the amount of a loss will exceed the recorded provision. We review all contingencies at least quarterly to determine whether the likelihood of loss has changed and to assess whether a reasonable estimate of the loss or range of the loss can be made. As discussed above, development of a meaningful estimate of loss or a range of potential loss is complex when the outcome is directly dependent on negotiations with or decisions by third parties, such as regulatory agencies, the court system and other interested parties. Such factors bear directly on whether it is possible to reasonably estimate a range of potential loss and boundaries of high and low estimate.

Business Combinations: We account for acquired businesses using the acquisition method of accounting, which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Effective April 1, 2009, acquisition-related expenses and restructuring costs are recognized separately from the business combinations and are expensed as incurred. Acquisition-related expenses totaled \$52 million in 2011 and were not material in 2010.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***Recently Adopted Accounting Pronouncements*

Accounting for Transfers of Financial Assets: On April 1, 2010, we adopted amended accounting guidance for transfers of financial assets, including securitization transactions, in which entities have continued exposure to risks related to transferred financial assets. This amendment changed the requirements for derecognizing financial assets and expanded the disclosure requirements for such transactions. As a result of the amended accounting guidance, from April 1, 2010 forward, accounts receivable transactions under our accounts receivable sales facility are accounted for as secured borrowings rather than asset sales.

Consolidations: On April 1, 2010, we adopted amended accounting guidance for consolidation of VIEs. The new guidance eliminates the quantitative approach previously required for determining the primary beneficiary of a VIE and requires ongoing qualitative reassessments of whether an enterprise is the primary beneficiary, including ongoing assessments of control over such entities. The adoption of this amended guidance did not have a material effect on our consolidated financial statements.

Financing Receivables: On October 1, 2010, we adopted amended accounting guidance which expands disclosures regarding credit quality and the related allowance for credit losses of financing receivables. On January 1, 2011, we adopted additional disclosure requirements regarding activity during a reporting period. The adoption of the amended guidance did not have an impact on our consolidated financial results as these changes relate only to disclosures. Because our financing receivables are not material to our consolidated financial statements, the disclosures required under the new accounting guidance have been omitted from our Financial Notes with the exception of certain accounting policy disclosures which describe how we assess and monitor credit risk associated with our financing receivables.

Fair Value Measurements and Disclosures: In January 2010, the Financial Accounting Standards Board (“FASB”) issued amended standards that clarify and provide additional disclosure requirements related to recurring and non-recurring fair value measurements of assets and liabilities. These standards also amend requirements for employer’s disclosure about post retirement benefit plan assets to conform to the fair value disclosure requirement. On January 1, 2010, we adopted the amended standards, except for the disclosures about the roll-forward of activity in Level 3 (measurement using significant unobservable inputs) fair value measurements, which are effective for us on April 1, 2011. The adoption of the amended guidance did not have a material effect on our consolidated financial statements.

Newly Issued Accounting Pronouncements

Revenue Recognition: In October 2009, the FASB issued amended accounting guidance for multiple-element arrangements. The amended guidance eliminates the use of the residual method and incorporates the use of an estimated selling price to allocate arrangement consideration. The amended guidance will become effective for us for multiple-element arrangements entered into or materially modified on or after April 1, 2011. We do not anticipate the adoption of the amended guidance to have a material effect on our consolidated financial statements.

In October 2009, the FASB issued amended guidance for certain revenue arrangements that include software elements. The guidance amends pre-existing software revenue guidance by removing from its scope tangible products that contain both software and non-software components that function together to deliver the product’s functionality. The amended guidance will become effective for us for revenue arrangements entered into or materially modified on or after April 1, 2011. We do not anticipate the adoption of the amended guidance to have a material effect on our consolidated financial statements.

In April 2010, the FASB issued amended accounting guidance for vendors who apply the milestone method of revenue recognition to research and development arrangements. The amended guidance applies to arrangements with payments that are contingent, at inception, upon achieving substantively uncertain future events or circumstances. The amended guidance is effective on a prospective basis for us for milestones achieved on or after April 1, 2011. We do not anticipate the adoption of the amended guidance to have a material effect on our consolidated financial statements.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

2. Business Combinations

On December 30, 2010, we acquired all of the outstanding shares of US Oncology Holdings, Inc. (“US Oncology”) of The Woodlands, Texas for approximately \$2.1 billion, consisting of cash consideration of \$0.2 billion, net of cash acquired, and the assumption of liabilities with a fair value of \$1.9 billion. As an integrated oncology company, US Oncology is affiliated with community-based oncologists, and works with patients, hospitals, payers and the medical industry across all phases of the cancer research and delivery continuum. The acquisition of US Oncology expands our existing specialty pharmaceutical distribution business and adds practice management services for oncologists. The cash paid at acquisition was funded from cash on hand.

The following table summarizes the preliminary recording of the fair values of the assets acquired and liabilities assumed as of the acquisition date:

<i>(In millions)</i>	Amounts Previously Recognized as of Acquisition Date (Provisional) ⁽¹⁾	Measurement Period Adjustments	Amounts Recognized as of Acquisition Date (Provisional as Adjusted)
Current assets, net of cash acquired	\$ 546	\$ 116	\$ 662
Goodwill	774	34	808
Intangible assets	1,099	(92)	1,007
Other long-term assets	396	(42)	354
Current liabilities	(535)	46	(489)
Current portion of long-term debt	(1,751)	16	(1,735)
Other long-term liabilities	(270)	(68)	(338)
Other stockholders' equity	(15)	(10)	(25)
Net assets acquired, less cash and cash equivalents	\$ 244	\$ —	\$ 244

(1) Represents amounts reported in our Form 10-Q for the quarter ended December 31, 2010.

During the fourth quarter of 2011, the fair value measurements of assets acquired and liabilities assumed as of the acquisition date were revised. Due to the recent timing of the acquisition, these amounts are subject to change within the measurement period as our fair value assessments are finalized.

Included in the purchase price allocation are acquired identifiable intangibles of \$1.0 billion, the fair value of which was determined by using Level 3 inputs, which are estimated using significant unobservable inputs. Acquired intangibles primarily consist of \$0.7 billion of service agreements and \$0.2 billion of customer lists. The estimated weighted average lives of the service agreements, customer lists and total acquired intangibles are 18 years, 10 years and 16 years. The fair value of the debt acquired was determined primarily by using Level 3 inputs, which are estimated using significant unobservable inputs. Refer to Financial Note 11, “Debt and Financing Activities,” for additional information on the assumption and funding of acquired debt. The excess of the purchase price over the net tangible and intangible assets of approximately \$808 million was recorded as goodwill, which primarily reflects the expected future benefits to be realized upon integrating the business.

Financial results for US Oncology have been included in the results of operations within our Distribution Solutions segment beginning in the fourth quarter of 2011. We recorded \$52 million of net acquisition-related expenses in 2011 as follows:

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

<i>(In millions)</i>	Distribution Solutions	Corporate & Interest Expense	Total
Operating expenses:			
Transaction closing expenses	\$ 22	\$ —	\$ 22
Severance and relocation	9	—	9
Other integration expenses	10	2	12
Total operating expenses	41	2	43
Other income: reimbursement of post-acquisition interest expense from former shareholders	—	(16)	(16)
Interest expense: bridge loan fees	—	25	25
Total acquisition-related expenses	\$ 41	\$ 11	\$ 52

On May 21, 2008, we acquired McQueary Brothers Drug Company (“McQueary Brothers”) of Springfield, Missouri for approximately \$190 million. McQueary Brothers is a regional distributor of pharmaceutical, health and beauty products to independent and regional chain pharmacies in the Midwestern U.S. This acquisition expanded our existing U.S. pharmaceutical distribution business. The acquisition was funded with cash on hand. Financial results for McQueary Brothers have been included within our Distribution Solutions segment since the date of acquisition.

The following table summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date:

<i>(In millions)</i>	
Goodwill	\$ 126
Intangible assets	67
Other assets	89
Accounts payable and other liabilities	(92)
Net assets acquired, less cash and cash equivalents	\$ 190

During the first quarter of 2010, the fair value measurements of assets acquired and liabilities assumed as of the acquisition date were completed. The excess of the purchase price over the net tangible and intangible assets of approximately \$126 million was recorded as goodwill, which primarily reflected the expected future benefits from synergies to be realized upon integrating the business. Included in the purchase price allocation were acquired identifiable intangibles of \$61 million primarily representing a customer relationship with a useful life of 7 years, a trade name of \$2 million with a useful life of less than one year and a not-to-compete agreement of \$4 million with a useful life of 4 years.

During the last three years, we also completed a number of other smaller acquisitions within both of our operating segments. Financial results for our business acquisitions have been included in our consolidated financial statements since their respective acquisition dates. Purchase prices for our business acquisitions have been allocated based on estimated fair values at the date of acquisition.

Goodwill recognized for our business acquisitions is generally not expected to be deductible for tax purposes. Pro forma results of operations for our business acquisitions have not been presented because the effects were not material to the consolidated financial statements on either an individual or an aggregate basis.

3. Share-Based Compensation

We provide share-based compensation for our employees, officers and non-employee directors, including stock options, an employee stock purchase plan, restricted stock units (“RSUs”) and performance-based restricted stock units (“PeRSUs”) (collectively, “share-based awards.”) Most of our share-based awards are granted in the first quarter of each fiscal year.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Compensation expense for the share-based awards is recognized for the portion of awards ultimately expected to vest. We estimate the number of share-based awards, which will ultimately vest primarily based on historical experience. The estimated forfeiture rate established upon grant is re-assessed throughout the requisite service period. As required, the forfeiture estimates are adjusted to reflect actual forfeitures when an award vests. The actual forfeitures in future reporting periods could be higher or lower than current estimates. The weighted-average forfeiture rate was approximately 5% at March 31, 2011.

The compensation expense recognized has been classified in the consolidated statements of operations or capitalized on the consolidated balance sheets in the same manner as cash compensation paid to our employees. There was no material share-based compensation expense capitalized as part of the cost of an asset in 2011, 2010 and 2009.

Impact on Net Income

The components of share-based compensation expense and related tax benefits are as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2011	2010	2009
RSUs ⁽¹⁾	\$ 79	\$ 47	\$ 60
PeRSUs ⁽²⁾	27	39	13
Stock options	22	19	18
Employee stock purchase plan	9	9	8
Share-based compensation expense	137	114	99
Tax benefit for share-based compensation expense ⁽³⁾	(48)	(41)	(34)
Share-based compensation expense, net of tax	\$ 89	\$ 73	\$ 65

- (1) This expense was primarily the result of PeRSUs awarded in prior years, which converted to RSUs due to the attainment of goals during the applicable years' performance period.
- (2) Represents estimated compensation expense for PeRSUs that are conditional upon attaining performance objectives during the current year's performance period.
- (3) Income tax expense is computed using the tax rates of applicable tax jurisdictions. Additionally, a portion of pre-tax compensation expense is not tax-deductible.

Stock Plans

The 2005 Stock Plan provides our employees, officers and non-employee director's share-based long-term incentives. The 2005 Stock Plan permits the granting of up to 42.5 million shares in the form of stock options, restricted stock, RSUs, PeRSUs and other share-based awards. As of March 31, 2011, 13 million shares remain available for future grant under the 2005 Stock Plan.

Stock Options

Stock options are granted at no less than fair market value and those options granted under the 2005 Stock Plan generally have a contractual term of seven years and follow a four-year vesting schedule.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Compensation expense for stock options is recognized on a straight-line basis over the requisite service period and is based on the grant-date fair value for the portion of the awards that is ultimately expected to vest. We continue to use the Black-Scholes options-pricing model to estimate the fair value of our stock options. Once the fair value of an employee stock option is determined, current accounting practices do not permit it to be changed, even if the estimates used are different from actual. The options-pricing model requires the use of various estimates and assumptions as follows:

- Expected stock price volatility is based on a combination of historical volatility of our common stock and implied market volatility. We believe that this market-based input provides a better estimate of our future stock price movements and is consistent with employee stock option valuation considerations.
- Expected dividend yield is based on historical experience and investors' current expectations.
- The risk-free interest rate for periods within the expected life of the option is based on the constant maturity U.S. Treasury rate in effect at the time of grant.
- Expected life of the options is based primarily on historical employee stock option exercise and other behavior data and reflects the impact of changes in contractual life of current option grants compared to our historical grants.

Weighted-average assumptions used to estimate the fair value of employee stock options were as follows:

	Years Ended March 31,		
	2011	2010	2009
Expected stock price volatility	29%	33%	27%
Expected dividend yield	1.1%	0.7%	0.6%
Risk-free interest rate	3%	2%	3%
Expected life (in years)	5	5	5

The following is a summary of options outstanding at March 31, 2011:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Options Outstanding At Year End (In millions)	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Options Exercisable at Year End (In millions)	Weighted-Average Exercise Price
\$ 27.35 - \$ 41.02	4	3	\$ 37.26	3	\$ 35.28
\$ 41.03 - \$ 54.70	1	2	45.89	1	46.06
\$ 54.71 - \$ 68.37	4	5	62.76	1	59.95
	9			5	

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The following table summarizes stock option activity during 2011, 2010 and 2009:

<i>(In millions, except per share data and years)</i>	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ⁽²⁾
Outstanding, March 31, 2008	26	\$ 48.59	3	\$ 298
Granted	1	57.81		
Exercised	(1)	33.49		
Cancelled and forfeited	(7)	78.35		
Outstanding, March 31, 2009	19	39.28	3	33
Granted	2	40.59		
Exercised	(5)	33.34		
Outstanding, March 31, 2010	16	41.26	3	394
Granted	1	67.95		
Exercised	(8)	37.63		
Outstanding, March 31, 2011	9	49.01	4	269
Vested and expected to vest ⁽¹⁾	9	49.01	4	268
Vested and exercisable, March 31, 2011	5	44.19	2	174

(1) The number of options expected to vest takes into account an estimate of expected forfeitures.

(2) The aggregate intrinsic value is calculated as the difference between the period-end market price of the Company's common stock and the option exercise price, times the number of "in-the-money" option shares.

The following table provides data related to stock option activity:

<i>(In millions, except per share data and years)</i>	Years Ended March 31,		
	2011	2010	2009
Weighted-average grant date fair value per stock option	\$ 18.37	\$ 12.56	\$ 16.16
Aggregate intrinsic value on exercise	\$ 276	\$ 115	\$ 30
Cash received upon exercise	\$ 319	\$ 165	\$ 49
Tax benefits realized related to exercise	\$ 106	\$ 37	\$ 14
Total fair value of shares vested	\$ 21	\$ 16	\$ 13
Total compensation cost, net of estimated forfeitures, related to unvested stock options not yet recognized, pre-tax	\$ 41	\$ 37	\$ 30
Weighted-average period in years over which stock option compensation cost is expected to be recognized	1	1	1

RSUs and PeRSUs

RSUs, which entitle the holder to receive at the end of a vesting term a specified number of shares of the Company's common stock are accounted for at fair value at the date of grant. Total compensation expense for RSUs under our stock plans is determined by the product of the number of shares that are expected to vest and the grant date market price of the Company's common stock. The Compensation Committee determines the vesting terms at the time of grant. These awards generally vest in three to four years. We recognize expense for RSUs with a single vest date on a straight-line basis over the requisite service period. We have elected to expense the grant date fair value of RSUs with only graded vesting and service conditions on a straight-line basis over the requisite service period.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Non-employee directors receive an annual grant of RSUs, which vest immediately and are expensed upon grant. However, issuance of any underlying shares granted prior to the July 2008 Annual Meeting of Stockholders is deferred until the director is no longer performing services for the Company. For those RSUs granted subsequent to July 2008, the director may choose to receive payment immediately or defer receipt of the underlying shares if they meet director stock ownership guidelines. At March 31, 2011, 113,000 RSUs for our directors are vested, but shares have not been issued.

PeRSUs are RSUs for which the number of RSUs awarded may be conditional upon the attainment of one or more performance objectives over a specified period. PeRSUs are accounted for as variable awards until the performance goals are reached and the grant date is established. Total compensation expense for PeRSUs is determined by the product of the number of shares eligible to be awarded and expected to vest, and the market price of the Company's common stock, commencing at the inception of the requisite service period. During the performance period, the compensation expense for PeRSUs is re-computed using the market price and the performance modifier at the end of a reporting period. At the end of the performance period, if the goals are attained, the awards are granted and classified as RSUs and accounted for on that basis. For PeRSUs granted during or prior to 2009, for which the related RSU grant has multiple vesting dates, we recognize the compensation expense of these awards on a graded vesting basis over the requisite aggregate service period of four years. For PeRSUs granted during or after 2009, for which the related RSU has a single vesting date, we recognize compensation expense of these awards on a straight-line basis over the requisite aggregate service period of four years.

The following table summarizes RSU activity during 2011, 2010 and 2009:

<i>(In millions, except per share data)</i>	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested, March 31, 2008	3	\$ 54.13
Granted	1	57.38
Vested	(1)	57.61
Nonvested, March 31, 2009	3	\$ 54.70
Granted	2	40.94
Vested	(1)	50.42
Nonvested, March 31, 2010	4	\$ 49.21
Granted	3	67.84
Vested	(1)	61.05
Nonvested, March 31, 2011	6	\$ 57.79

The following table provides data related to RSU activity:

<i>(Dollars in millions)</i>	Years Ended March 31,		
	2011	2010	2009
Total fair value of shares vested	\$ 43	\$ 74	\$ 101
Total compensation cost, net of estimated forfeitures, related to nonvested RSU awards not yet recognized, pre-tax	\$ 131	\$ 61	\$ 52
Weighted-average period in years over which RSU cost is expected to be recognized	2	2	1

In May 2010, the Compensation Committee approved 1 million PeRSU target share units representing the base number of awards that could be granted, if goals are attained, and would be granted in the first quarter of 2012 (the "2011 PeRSU"). These target share units are not included in the table above as they have not been granted in the form of RSUs. As of March 31, 2011, the total compensation cost, net of estimated forfeitures, related to nonvested 2011 PeRSUs not yet recognized was approximately \$93 million, pre-tax (based on the period-end market price of the Company's common stock) and the weighted-average period over which the cost is expected to be recognized is 3 years.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***Employee Stock Purchase Plan ("ESPP")*

The Company has an ESPP under which 16 million shares have been authorized for issuance. The ESPP allows eligible employees to purchase shares of our common stock through payroll deductions. The deductions occur over three-month purchase periods and the shares are then purchased at 85% of the market price at the end of each purchase period. Employees are allowed to terminate their participation in the ESPP at any time during the purchase period prior to the purchase of the shares. The 15% discount provided to employees on these shares is included in compensation expense. The shares related to funds outstanding at the end of a quarter are included in the calculation of diluted weighted average shares outstanding. These amounts have not been significant. In 2011, 2010 and 2009, 1 million shares were issued under the ESPP and 2 million shares remain available for issuance at March 31, 2011.

4. Other Income, Net

<i>(In millions)</i>	Years Ended March 31,		
	2011	2010	2009
Interest income	\$ 18	\$ 16	\$ 31
Equity in (loss) earnings, net ⁽¹⁾	(6)	6	7
Reimbursement of post-acquisition interest expense	16	—	—
Gain on sale of investment ⁽¹⁾	—	17	24
Impairment of investments ⁽¹⁾	—	—	(63)
Other, net	8	4	13
Total	\$ 36	\$ 43	\$ 12

(1) Recorded within our Distribution Solutions segment.

In 2011, other income, net included a credit of \$16 million representing the reimbursement of post-acquisition interest expense by the former shareholders of US Oncology, which is recorded in Corporate.

In 2010, we sold our 50% equity interest in McKesson Logistics Solutions LLC ("MLS"), a Canadian logistics company, for a pre-tax gain of \$17 million or \$14 million after-tax.

In 2009, we sold our 42% equity interest in Verispan LLC, a data analytics company, for a pre-tax gain of \$24 million or \$14 million after-tax.

We evaluate our investments for impairment when events or changes in circumstances indicate that the carrying values of such investments may have experienced an other-than-temporary decline in value. In 2009, we determined that the fair value of our interest in Parata Systems, LLC ("Parata") was lower than its carrying value and that such impairment was other-than-temporary. Fair value was determined using a discounted cash flow analysis based on estimated future results and market capitalization rates. We determined the impairment was other-than-temporary based on our assessment of all relevant factors including deterioration in the investee's financial condition and weak market conditions. As a result, we recorded a pre-tax impairment of \$58 million (\$55 million after-tax) on this investment, which is recorded within other income, net in the consolidated statements of operations. Our investment in Parata is accounted for under the equity method of accounting.

In 2009, we also recorded a pre-tax impairment of \$5 million (\$5 million after-tax) on another equity-held investment.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

5. Income Taxes

(In millions)	Years Ended March 31,		
	2011	2010	2009
Income from continuing operations before income taxes			
U.S.	\$ 1,161	\$ 1,340	\$ 623
Foreign	474	524	441
Total income from continuing operations before income taxes	\$ 1,635	\$ 1,864	\$ 1,064

The provision for income taxes related to continuing operations consists of the following:

(In millions)	Years Ended March 31,		
	2011	2010	2009
Current			
Federal	\$ 283	\$ 255	\$ 177
State and local	40	25	(111)
Foreign	54	44	35
Total current	377	324	101
Deferred			
Federal	121	269	69
State and local	1	13	62
Foreign	6	(5)	9
Total deferred	128	277	140
Income tax provision	\$ 505	\$ 601	\$ 241

In 2011, income tax expense included \$34 million of net income tax benefits for discrete items, which primarily relate to the recognition of previously unrecognized tax benefits and accrued interest.

In 2009, income tax expense included \$111 million of net income tax benefits for discrete items of which, \$87 million represents a non-cash benefit. These benefits primarily relate to the recognition of previously unrecognized tax benefits and related accrued interest. The recognition of these discrete items was primarily due to the lapsing of the statutes of limitations.

The U.S. Internal Revenue Service ("IRS") is currently examining our fiscal years 2003 through 2006 and we anticipate the field work will be completed and they will issue the Revenue Agent Report in our first quarter of fiscal 2012. We have received assessments from the Canada Revenue Agency ("CRA") for a total of \$169 million related to transfer pricing for 2003 through 2007. Payments of most of the assessments to the CRA have been made to stop the accrual of interest. We have appealed the assessment for 2003 to the Tax Court of Canada and have filed a notice of objection for 2004 through 2007. If we are not successful in resolving these issues with the CRA, a trial date has been set for October 17, 2011 with the Tax Court of Canada. We believe that we have adequately provided for any potential adverse results relating to the IRS and CRA examinations. However, the final resolution of these issues could result in an increase or decrease to income tax expense.

In nearly all jurisdictions, the tax years prior to 2003 are no longer subject to examination.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Significant judgments and estimates are required in determining the consolidated income tax provision. Although our major taxing jurisdictions are the U.S. and Canada, we are subject to income taxes in numerous foreign jurisdictions. Annually, we file a federal consolidated income tax return with the IRS and over 1,200 returns with various state and foreign jurisdictions. Our income tax expense, deferred tax assets and liabilities reflect management's best assessment of estimated current and future taxes to be paid.

The reconciliation between our effective tax rate on income from continuing operations and statutory tax rate is as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2011	2010	2009
Income tax provision at federal statutory rate	\$ 572	\$ 652	\$ 372
State and local income taxes net of federal tax benefit	33	25	18
Foreign income taxed at various rates	(105)	(144)	(120)
Unrecognized tax benefits and settlements	14	53	(21)
Tax credits	(16)	(8)	(20)
Other, net	7	23	12
Income tax provision	\$ 505	\$ 601	\$ 241

At March 31, 2011, undistributed earnings of our foreign operations totaling \$2.7 billion were considered to be permanently reinvested. No deferred tax liability has been recognized on the basis difference created by such earnings since it is our intention to utilize those earnings in the foreign operations as well as to fund certain research and development activities for an indefinite period of time. The determination of the amount of deferred taxes on these earnings is not practicable because the computation would depend on a number of factors that cannot be known until a decision to repatriate the earnings is made.

Deferred tax balances consisted of the following:

<i>(In millions)</i>	March 31,	
	2011	2010
Assets		
Receivable allowances	\$ 48	\$ 56
Deferred revenue	107	107
Compensation and benefit related accruals	409	349
AWP litigation accrual	97	56
Loss and credit carryforwards	494	481
Other	241	235
Subtotal	1,396	1,284
Less: valuation allowance	(99)	(97)
Total assets	\$ 1,297	\$ 1,187
Liabilities		
Basis difference for inventory valuation and other assets	\$ (1,450)	\$ (1,363)
Basis difference for fixed assets and systems development costs	(221)	(210)
Intangibles	(532)	(209)
Other	(58)	(63)
Total liabilities	(2,261)	(1,845)
Net deferred tax liability	\$ (964)	\$ (658)
Current net deferred tax liability	\$ (1,036)	\$ (975)
Long-term net deferred tax asset	72	317
Net deferred tax liability	\$ (964)	\$ (658)

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

We have federal, state and foreign income tax net operating loss carryforwards of \$267 million, \$2.9 billion and \$239 million. The federal and state net operating losses will expire at various dates from 2012 through 2031. Substantially all of our foreign net operating losses have indefinite lives. We believe that it is more likely than not that the benefit from certain federal, state and foreign net operating loss carryforwards may not be realized. In recognition of this risk, we have provided valuation allowances of \$16 million and \$58 million on the deferred tax assets relating to these state and foreign net operating loss carryforwards. We also have state capital loss carryforwards of \$27 million which will expire at various dates from 2012 through 2015.

We also have domestic income tax credit carryforwards of \$191 million which are primarily alternative minimum tax credit carryforwards that have an indefinite life. However, we believe that it is more likely than not that the benefit from certain state tax credits of \$15 million may not be fully realized. In recognition of this risk, we have provided a valuation allowance of \$2 million. In addition, we have Canadian research and development credit carryforwards of \$12 million. The Canadian research and development credits will expire at various dates from 2018 to 2031.

On December 30, 2010, we acquired all of the outstanding shares of US Oncology. As part of acquisition accounting, we recorded net deferred tax liabilities of \$170 million on the opening balance sheet. The \$170 million included deferred tax liabilities of \$339 million for basis differences in intangible assets, offset by deferred tax assets of \$83 million for federal and state net operating losses and \$86 million for other future deductible and taxable differences.

The following table summarizes the activity related to our gross unrecognized tax benefits for the last three years:

<i>(In millions)</i>	Years Ended March 31,		
	2011	2010	2009
Unrecognized tax benefits at beginning of period	\$ 619	\$ 526	\$ 496
Additions based on tax positions related to prior years	32	50	77
Reductions based on tax positions related to prior years	(60)	(12)	—
Additions based on tax positions related to current year	50	72	61
Reductions based on settlements	(6)	(16)	(41)
Reductions based on the lapse of the applicable statutes of limitations	—	(1)	(67)
Unrecognized tax benefits at end of period	\$ 635	\$ 619	\$ 526

Of the total \$635 million in unrecognized tax benefits at March 31, 2011, \$415 million would reduce income tax expense and the effective tax rate if recognized. During the next twelve months, it is reasonably possible that audit resolutions and the expiration of statutes of limitations could potentially reduce our unrecognized tax benefits by up to \$88 million. However, this amount may change because we continue to have ongoing negotiations with various taxing authorities throughout the year.

We report interest and penalties on tax deficiencies as income tax expense. At March 31, 2011, before any tax benefits, our accrued interest on unrecognized tax benefits amounted to \$136 million. We recognized an income tax expense of \$16 million, before any tax effect, related to interest in our consolidated statements of operations during 2011. We have no material amounts accrued for penalties.

6. Discontinued Operation

In July 2010, our Technology Solutions segment sold its wholly-owned subsidiary, McKesson Asia Pacific Pty Limited ("MAP"), a provider of phone and web-based healthcare services in Australia and New Zealand, for net sales proceeds of \$109 million. The divestiture generated a pre-tax and after-tax gain of \$95 million and \$72 million. As a result of the sale, we were able to utilize capital loss carry-forwards for which we previously recorded a valuation allowance of \$15 million. The release of the valuation allowance is included as a tax benefit in our after-tax gain on the divestiture. The after-tax gain on disposition was recorded as a discontinued operation in our statement of operations in 2011. The historical financial operating results and net assets of MAP were not material to our consolidated financial statements for all periods presented.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

7. Earnings Per Common Share

Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per common share are computed similar to basic earnings per common share except that it reflects the potential dilution that could occur if dilutive securities or other obligations to issue common stock were exercised or converted into common stock. Potentially dilutive securities primarily include outstanding stock options, RSUs and PeRSUs.

The computations for basic and diluted earnings per common share from continuing and discontinued operations are as follows:

<i>(In millions, except per share amounts)</i>	Years Ended March 31,		
	2011	2010	2009
Income from continuing operations	\$ 1,130	\$ 1,263	\$ 823
Discontinued operation - gain on sale, net of tax	72	—	—
Net income	<u>\$ 1,202</u>	<u>\$ 1,263</u>	<u>\$ 823</u>
Weighted average common shares outstanding:			
Basic	258	269	275
Effect of dilutive securities:			
Options to purchase common stock	3	3	3
Restricted stock units	2	1	1
Diluted	<u>263</u>	<u>273</u>	<u>279</u>
Earnings per common share: ⁽¹⁾			
Basic			
Continuing operations	\$ 4.37	\$ 4.70	\$ 2.99
Discontinued operation, net	0.28	—	—
Total	<u>\$ 4.65</u>	<u>\$ 4.70</u>	<u>\$ 2.99</u>
Diluted			
Continuing operations	\$ 4.29	\$ 4.62	\$ 2.95
Discontinued operation, net	0.28	—	—
Total	<u>\$ 4.57</u>	<u>\$ 4.62</u>	<u>\$ 2.95</u>

(1) Certain computations may reflect rounding adjustments.

Approximately 6 million, 8 million and 5 million of potentially dilutive securities were excluded from the computations of diluted net earnings per common share in 2011, 2010 and 2009, as they were anti-dilutive.

8. Receivables, Net

<i>(In millions)</i>	March 31,	
	2011	2010
Customer accounts	\$ 7,982	\$ 7,256
Other	1,341	968
Total	9,323	8,224
Allowances	(136)	(149)
Net	<u>\$ 9,187</u>	<u>\$ 8,075</u>

The allowances are primarily for estimated uncollectible accounts and sales returns to vendors.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

9. Property, Plant and Equipment, Net

(In millions)	March 31,	
	2011	2010
Land	\$ 70	\$ 50
Building, machinery, equipment and other	1,973	1,808
Total property, plant and equipment	2,043	1,858
Accumulated depreciation	(1,052)	(1,007)
Property, plant and equipment, net	\$ 991	\$ 851

10. Goodwill and Intangible Assets, Net

Changes in the carrying amount of goodwill were as follows:

(In millions)	Distribution Solutions	Technology Solutions	Total
Balance, March 31, 2009	\$ 1,869	\$ 1,659	\$ 3,528
Goodwill acquired	7	4	11
Acquisition accounting and other adjustments	(26)	—	(26)
Foreign currency translation adjustments	21	34	55
Balance, March 31, 2010	\$ 1,871	\$ 1,697	\$ 3,568
Goodwill acquired	819	8	827
Acquisition accounting and other adjustments	(32)	(13)	(45)
Foreign currency translation adjustments	4	10	14
Balance, March 31, 2011	\$ 2,662	\$ 1,702	\$ 4,364

Information regarding intangible assets is as follows:

	March 31, 2011				March 31, 2010			
	Weighted Average Remaining Amortization Period (years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
(In millions)								
Customer lists	7	\$ 1,057	\$ (444)	\$ 613	\$ 832	\$ (347)	\$ 485	
Service agreements	17	723	(11)	712	—	—	—	
Trademarks and trade names	14	76	(31)	45	45	(20)	25	
Technology	3	204	(170)	34	190	(156)	34	
Other	9	76	(24)	52	29	(22)	7	
Total		\$ 2,136	\$ (680)	\$ 1,456	\$ 1,096	\$ (545)	\$ 551	

Amortization expense of intangible assets was \$132 million, \$121 million and \$128 million for 2011, 2010 and 2009. Estimated annual amortization expense of intangible assets is as follows: \$186 million, \$168 million, \$154 million, \$136 million and \$115 million for 2012 through 2016, and \$697 million thereafter. All intangible assets were subject to amortization as of March 31, 2011 and 2010.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

11. Debt and Financing Activities

(In millions)	March 31,	
	2011	2010
7.75% Notes due February, 2012	\$ 399	\$ 399
5.25% Notes due March, 2013	499	499
6.50% Notes due February, 2014	350	350
3.25% Notes due March, 2016	598	—
5.70% Notes due March, 2017	499	499
7.50% Notes due February, 2019	349	349
4.75% Notes due March, 2021	598	—
7.65% Debentures due March, 2027	175	175
6.00% Notes due March, 2041	493	—
Other	44	25
Total debt	4,004	2,296
Less current portion	(417)	(3)
Total long-term debt	\$ 3,587	\$ 2,293

Senior Bridge Term Loan Facility

In connection with our execution of an agreement to acquire US Oncology, in November 2010 we entered into a \$2.0 billion unsecured Senior Bridge Term Loan Agreement (“Bridge Loan”). In December 2010, we reduced the Bridge Loan commitment to \$1.0 billion. On January 31, 2011, we borrowed \$1.0 billion under the Bridge Loan. On February 28, 2011, we repaid the funds obtained under the Bridge Loan with long-term debt, as further described below, and the Senior Bridge Term Loan Agreement was terminated. During the time it was outstanding, the Bridge Loan bore interest of 1.76%, which was based on the London Interbank Offered Rate plus a margin based on the Company’s credit rating. Bridge Loan fees of \$25 million were included in interest expense.

US Oncology Debt Acquired

Upon our purchase of US Oncology in December 2010, we assumed the outstanding debt of US Oncology Holdings, Inc. and its wholly-owned subsidiary US Oncology, Inc. Immediately prior to our acquisition, US Oncology Holdings, Inc. called for redemption all of its outstanding Senior Unsecured Floating Rate Toggle Notes due 2012 and US Oncology, Inc. called for redemption all of its outstanding 9.125% Senior Secured Notes due 2017 and 10.75% Senior Subordinated Notes due 2014. In the fourth quarter of 2011, we paid interest of \$50 million and redeemed these notes, including the remaining accrued interest for \$1,738 million using cash on hand and borrowings under our Bridge Loan.

Long-Term Debt

On February 28, 2011, we issued 3.25% notes due March 1, 2016 in an aggregate principal amount of \$600 million, 4.75% notes due March 1, 2021 in an aggregate principal amount of \$600 million and 6.00% notes due March 1, 2041 in an aggregate principal amount of \$500 million. Interest is payable on March 1 and September 1 of each year beginning on September 1, 2011. We utilized net proceeds, after discounts and offering expenses, of \$1,673 million from the issuance of these notes (each note constitutes a “Series”) for general corporate purposes, including the repayment of borrowings under the Bridge Loan.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

On February 12, 2009, we issued 6.50% notes due February 15, 2014 in an aggregate principal amount of \$350 million and 7.50% notes due February 15, 2019 in an aggregate principal amount of \$350 million. Interest is payable on February 15 and August 15 of each year. We utilized net proceeds, after discounts and offering expenses, of \$693 million from the issuance of these notes (each note constitutes a “Series”) for general corporate purposes.

Each Series constitutes an unsecured and unsubordinated obligation of the Company and ranks equally with all of the Company’s existing and future unsecured and unsubordinated indebtedness outstanding from time-to-time. Each Series is governed by materially similar indentures and an officers’ certificate specifying certain terms of each Series.

Upon 30 days notice to holders of a Series, we may redeem that Series at any time prior to maturity, in whole or in part, for cash at redemption prices that include accrued and unpaid interest and a make-whole premium, as specified in the indenture and officers’ certificate relating to that Series. In the event of the occurrence of both (1) a change of control of the Company and (2) a downgrade of a Series below an investment grade rating by each of Fitch Ratings, Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services within a specified period, an offer will be made to purchase that Series from the holders at a price in cash equal to 101% of the then outstanding principal amount of that Series, plus accrued and unpaid interest to, but not including, the date of repurchase. The indenture and the related officers’ certificate for each Series, subject to the exceptions and in compliance with the conditions as applicable, specify that we may not incur liens, enter into sale and leaseback transactions or consolidate, merge or sell all or substantially all of our assets. The indentures also contain customary events and default provisions.

In March 2010, we repaid our \$215 million 9.13% Series C Senior Notes which had matured.

Scheduled future principal payments of long-term debt are \$417 million in 2012, \$509 million in 2013, \$352 million in 2014, \$2 million in 2015, \$604 million in 2016 and \$2.1 billion thereafter.

Accounts Receivable Sales Facility

In May 2010, we renewed our accounts receivable sales facility (the “Facility”) for an additional one year period under terms substantially similar to those previously in place, and in doing so, we increased our committed balance from \$1.1 billion to \$1.35 billion. From time-to-time, the available amount of the Facility may be less than \$1.35 billion based on accounts receivable concentration limits and other eligibility requirements. The renewed Facility will expire in May 2011. We anticipate renewing this facility before its expiration.

Through the Facility, McKesson Corporation, the parent company, transfers certain U.S. pharmaceutical trade accounts receivable on a non-recourse basis to a wholly-owned and consolidated subsidiary, which then sells these receivables to a special purpose entity (“SPE”), which is a wholly-owned, bankruptcy-remote subsidiary of McKesson Corporation that is consolidated in our financial statements. This SPE then sells undivided interests in the pool of accounts receivable to third-party purchaser groups (the “Purchaser Groups”), which include financial institutions and commercial paper conduits.

Interests in the pool of accounts receivable that are sold to the Purchaser Groups and accounts receivable retained by the Company are carried at face value, which, due to the short-term nature of our accounts receivable and terms of the Facility, approximates fair value. McKesson receives cash in the amount of the face value for the undivided interests sold. No gain or loss is recorded upon the utilization of the facility as fee charges from the Purchaser Groups are based upon a floating yield rate and the period the undivided interests remain outstanding.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

The Facility contains requirements relating to the performance of the accounts receivable and covenants relating to the SPE and the Company. If we do not comply with these covenants, our ability to use the Facility may be suspended and repayment of any outstanding balances under the Facility may be required. At March 31, 2011, we were in compliance with all covenants. Should we default under the Facility, the Purchaser Groups are entitled to receive only collections on the accounts receivable owned by the SPE.

Prior to 2011, transactions in the Facility were accounted for as sales because we met the requirements of the existing accounting guidance, including relinquishing control of the accounts receivable. Accordingly, accounts receivable sold would have been excluded from accounts receivable, net in the accompanying March 31, 2010 consolidated balance sheet had any balances been outstanding in the Facility at that date. On April 1, 2010, we adopted amended accounting guidance for transfers of financial assets. Transactions under the Facility no longer meet the requirements for sale as defined in the amended accounting guidance primarily because the Company's retained interest in the pool of accounts receivable is subordinated to the Purchaser Groups to the extent there is any outstanding balance in the Facility. Consequently, the related accounts receivable would continue to be recognized on our consolidated balance sheets and proceeds from the Purchaser Groups would be shown as secured borrowings. Commencing in 2011, fee charges from the Purchaser Groups are recorded in interest expense within the consolidated statements of operations. Prior to 2011, these fee charges were recorded in Corporate administrative expenses. Additionally, any proceeds from these accounts receivable transactions would be reflected in the financing section within the statements of cash flows.

We continue servicing the accounts receivable sold. No servicing asset is recorded at the time of utilization of the facility because we do not receive any servicing fees from third parties or other income related to servicing the receivable. We do not record any servicing liability at the time of the utilization of the facility as the accounts receivable collection period is relatively short and the costs of servicing the accounts receivable over the servicing period are insignificant. Servicing costs are recognized as incurred over the servicing period.

Information regarding receivables subject to borrowings as of March 31, 2011 or our outstanding balances related to our interests in accounts receivable sold or qualifying receivables retained as of March 31, 2010 is as follows:

<i>(In millions)</i>	March 31,	
	2011	2010
Receivables subject to borrowings or sold	\$ —	\$ —
Receivables retained, net of allowance for doubtful accounts	N/A	4,887

The following table summarizes the activity related to our interests in accounts receivable sold:

<i>(In millions)</i>	Years Ended March 31,		
	2011	2010	2009
Proceeds from accounts receivable sales	\$ N/A	\$ —	\$ 5,780
Fees and charges ⁽¹⁾	9	11	10

(1) Recorded in interest expense in 2011 and operating expenses in 2010 and 2009 in the consolidated statements of operations.

The delinquency ratio for the qualifying receivables represented less than 1% of the total qualifying receivables as of March 31, 2011 and 2010.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***Revolving Credit Facility*

We have a syndicated \$1.3 billion five-year senior unsecured revolving credit facility, which expires in June 2012. Borrowings under this credit facility bear interest based upon either a Prime rate or the London Interbank Offered Rate. There were no borrowings under this facility in 2011 or 2010 and \$279 million for 2009. As of March 31, 2011 and 2010, there were no amounts outstanding under this facility.

Commercial Paper

There were no commercial paper issuances during 2011 and 2010 and no amount outstanding at March 31, 2011 and 2010. We issued and repaid \$3.3 billion of commercial paper in 2009.

Debt Covenants

Our various borrowing facilities and long-term debt are subject to certain covenants. Our principal debt covenant is our debt to capital ratio under our unsecured revolving credit facility, which cannot exceed 56.5%. If we exceed this ratio, repayment of debt outstanding under the revolving credit facility could be accelerated. As of March 31, 2011, this ratio was 35.7% and we were in compliance with our other financial covenants.

12. Pension Benefits

We maintain a number of qualified and nonqualified defined pension benefit plans and defined contribution plans for eligible employees.

Defined Pension Benefit Plans

Eligible U.S. employees who were employed by the Company prior to December 31, 1996 are covered under the Company-sponsored defined benefit retirement plan. In 1997, we amended this plan to freeze all plan benefits based on each employee's plan compensation and creditable service accrued to that date. The Company has made no annual contributions since this plan was frozen. The benefits for this defined benefit retirement plan are based primarily on age of employees at date of retirement, years of service and employees' pay during the five years prior to retirement. We also have defined benefit pension plans for eligible Canadian and United Kingdom employees as well as an unfunded nonqualified supplemental defined benefit plan for certain U.S. executives. Defined benefit plan assets and obligations are measured as of the Company's fiscal year-end.

The net periodic expense for our pension plans is as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2011	2010	2009
Service cost—benefits earned during the year	\$ 6	\$ 4	\$ 6
Interest cost on projected benefit obligation	31	35	33
Expected return on assets	(29)	(24)	(39)
Amortization of unrecognized actuarial loss, prior service costs and net transitional obligation	28	25	10
Settlement charges and other	—	—	1
Net periodic pension expense	\$ 36	\$ 40	\$ 11

The projected unit credit method is utilized in measuring net periodic pension expense over the employees' service life for the U.S. pension plans. Unrecognized actuarial losses exceeding 10% of the greater of the projected benefit obligation or the market value of assets are amortized straight-line over the average remaining future service periods.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Information regarding the changes in benefit obligations and plan assets for our pension plans is as follows:

<i>(In millions)</i>	Years Ended March 31,	
	2011	2010
Change in benefit obligations		
Benefit obligation at beginning of period	\$ 593	\$ 456
Service cost	6	4
Interest cost	31	35
Actuarial loss	21	132
Benefit payments	(32)	(38)
Foreign exchange impact and other	6	4
Benefit obligation at end of period ⁽¹⁾	<u>\$ 625</u>	<u>\$ 593</u>
Change in plan assets		
Fair value of plan assets at beginning of period	\$ 391	\$ 309
Actual return on plan assets	40	97
Employer and participant contributions	11	18
Benefits paid	(32)	(38)
Foreign exchange impact and other	6	5
Fair value of plan assets at end of period	<u>\$ 416</u>	<u>\$ 391</u>
Funded status at end of period ⁽²⁾	\$ (209)	\$ (202)
Amounts recognized on the balance sheet		
Noncurrent assets	\$ 4	\$ —
Current liabilities	(4)	(4)
Noncurrent liabilities	(209)	(198)
Total	<u>\$ (209)</u>	<u>\$ (202)</u>

(1) The benefit obligation is the projected benefit obligation.

(2) The unfunded status of our plans at March 31, 2011 and 2010 was primarily due to the unfavorable effect from the reduction in discount rates.

The accumulated benefit obligations for our pension plans were \$622 million at March 31, 2011 and \$574 million at March 31, 2010. The following table provides the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for all our pension plans with an accumulated benefit obligation in excess of plan assets.

<i>(In millions)</i>	March 31,	
	2011	2010
Projected benefit obligation	\$ 533	\$ 503
Accumulated benefit obligation	529	499
Fair value of plan assets	319	307

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Amounts recognized in accumulated other comprehensive loss consist of:

<i>(In millions)</i>	March 31,	
	2011	2010
Net actuarial loss	\$ 239	\$ 253
Prior service cost	2	4
Net transition obligation	1	1
Total	\$ 242	\$ 258

Other changes in plan assets and benefit obligations recognized in other comprehensive loss (income) during the reporting periods were as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2011	2010	2009
Net actuarial loss	\$ 10	\$ 59	\$ 121
Prior service credit	—	(2)	—
Amortization of:			
Net actuarial loss	(26)	(23)	(10)
Prior service cost	(2)	(2)	(2)
Total recognized in net periodic benefit cost and other comprehensive loss (income)	\$ (18)	\$ 32	\$ 109

We expect to amortize \$2 million of prior service cost and \$25 million of actuarial loss for the pension plans from stockholders' equity to pension expense in 2012. Comparable 2011 amounts were \$2 million and \$26 million.

Projected benefit obligations relating to our unfunded U.S. plans were \$154 million and \$137 million at March 31, 2011 and 2010. Pension obligations for our unfunded plans are funded based on the recommendations of independent actuaries.

Expected benefit payments for our pension plans are as follows: \$38 million, \$42 million, \$34 million, \$136 million and \$36 million for 2012 to 2016 and \$194 million for 2017 through 2021. Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service. Expected contributions to be made for our pension plans are \$16 million for 2012.

Weighted-average assumptions used to estimate the net periodic pension expense and the actuarial present value of benefit obligations were as follows:

	Years Ended March 31,		
	2011	2010	2009
Net periodic pension expense			
Discount rates	5.30%	7.68%	5.34%
Rate of increase in compensation	3.75	3.62	3.93
Expected long-term rate of return on plan assets	7.79	7.90	7.75
Benefit obligation			
Discount rates	4.99%	5.33%	7.74%
Rate of increase in compensation	3.74	3.75	3.93

Our U.S. defined benefit pension plan liabilities are valued using a discount rate based on a yield curve developed from a portfolio of high quality corporate bonds rated AA or better whose maturities are aligned with the expected benefit payments of our plans. For March 31, 2011, we used a weighted average discount rate of 4.88%, which represents a decrease of 41 basis points from our 2010 weighted-average discount rate of 5.29%.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Sensitivity to changes in the weighted-average discount rate for our U.S. pension plans is as follows:

<i>(In millions)</i>	One Percentage Point Increase	One Percentage Point Decrease
Increase (decrease) on projected benefit obligation	\$ (36)	\$ 42
Increase (decrease) on net periodic pension cost	(2)	3

Plan Assets

Investment Strategy: The overall objective for McKesson's pension plan assets is to generate long-term investment returns consistent with capital preservation and prudent investment practices, with a diversification of asset types and investment strategies. Periodic adjustments are made to provide liquidity for benefit payments and to rebalance plan assets to their target allocations.

The target allocations for plan assets at March 31, 2011 are 61% equity securities, 32% fixed income securities and 7% to all other types of investments including cash and cash equivalents. The target allocations for plan assets at March 31, 2010 were 59% equity securities, 33% fixed income securities and 8% to all other types of investments including cash and cash equivalents. Equity securities include primarily exchange-traded common stock and preferred stock of companies from diverse industries. Fixed income securities include corporate bonds of companies from diverse industries, government securities, mortgage-backed securities, asset-backed securities and other. Other investments include real estate funds, hedge funds and cash and cash equivalents. Portions of the equity, fixed income and cash and cash equivalent investments are held in commingled funds.

We develop our expected long-term rate of return assumption based on the historical experience of our portfolio and review of projected performance by asset class of broad, publicly traded equity and fixed-income indices. Our target asset allocation was determined based on the risk tolerance characteristics of the plans and at times may be adjusted to achieve our overall investment objectives.

Fair Value Measurements: The following tables represent our pension plan assets as of March 31, 2011 and 2010, using the fair value hierarchy by asset class. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on unadjusted quoted prices in active markets for identical assets. Level 2 refers to fair values estimated using significant other observable inputs and Level 3 includes fair values estimated using significant unobservable inputs.

<i>(In millions)</i>	March 31, 2011			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 14	\$ 31	\$ —	\$ 45
Equity securities:				
Common and preferred stock	104	1	—	105
Equity commingled funds	—	144	—	144
Fixed income securities:				
Government securities	—	20	—	20
Corporate bonds	—	26	—	26
Mortgage-backed securities	—	28	—	28
Asset-backed securities and other	—	19	—	19
Fixed income commingled funds	—	34	—	34
Other:				
Real estate funds	—	—	5	5
Hedge funds	—	—	5	5
Total	\$ 118	\$ 303	\$ 10	\$ 431
Receivables ⁽¹⁾				19
Payables ⁽¹⁾				(34)
Total				\$ 416

(1) Represents pending trades at March 31, 2011.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

	March 31, 2010			
(In millions)	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 10	\$ 17	\$ —	\$ 27
Equity securities:				
Common and preferred stock	104	1	—	105
Equity commingled funds	—	126	—	126
Fixed income securities:				
Government securities	—	23	—	23
Corporate bonds	—	41	—	41
Mortgage-backed securities	—	17	1	18
Asset-backed securities and other	—	15	1	16
Fixed income commingled funds	—	22	—	22
Other:				
Real estate funds	—	—	19	19
Hedge funds	—	—	5	5
Total	\$ 114	\$ 262	\$ 26	\$ 402
Receivables ⁽¹⁾				6
Payables ⁽¹⁾				(17)
Total				\$ 391

(1) Represents pending trades at March 31, 2010.

Cash and cash equivalents – Cash and cash equivalents consist of short-term investment funds that maintain daily liquidity and have a constant unit value of \$1.00. The funds invest in short-term domestic fixed income securities and other securities with debt-like characteristics emphasizing short-term maturities and quality. Cash and cash equivalents are generally classified as Level 1 investments. Some cash and cash equivalents are held in commingled funds, which have a daily net value derived from quoted prices for the underlying securities in active markets; these are classified as Level 2 investments.

Common and preferred stock – This investment class consists of common and preferred shares issued by U.S. and non-U.S. corporations. Common shares are traded actively on exchanges and price quotes are readily available. Preferred shares are not actively traded. Holdings of common shares are generally classified as Level 1 investments. Preferred shares are classified as Level 2 investments.

Equity commingled funds – Some equity securities consisting of common and preferred stock are held in commingled funds, which have daily net asset values derived from quoted prices for the underlying securities in active markets; these are classified as Level 2 investments.

Government securities – This investment class consists of bonds and debentures issued by central governments or federal agencies. Multiple prices and price types are obtained from pricing vendors whenever possible, which enables cross-provider validations. We have obtained an understanding of how these prices are derived, including the nature and observability of the inputs used in deriving such prices. These securities are classified as Level 2 investments.

Corporate bonds – This investment class consists of bonds and debentures issued by corporations. Multiple prices and price types are obtained from pricing vendors whenever possible, which enables cross-provider validations. We have obtained an understanding of how these prices are derived, including the nature and observability of the inputs used in deriving such prices. When inputs are observable, securities are classified as Level 2 investments; otherwise, securities are classified as Level 3 investments.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Mortgage-backed securities – This investment class consists of debt obligations secured by a mortgage or collection of mortgages. Multiple prices and price types are obtained from pricing vendors whenever possible, which enables cross-provider validations. We have obtained an understanding of how these prices are derived, including the nature and observability of the inputs used in deriving such prices. When inputs are observable, securities are classified as Level 2 investments; otherwise, securities are classified as Level 3 investments.

Asset-backed securities and other – This investment class consists of debt obligations secured by non-mortgage-backed assets or pools of assets. Multiple prices and price types are obtained from pricing vendors whenever possible, which enables cross-provider validations. We have obtained an understanding of how these prices are derived, including the nature and observability of the inputs used in deriving such prices. When inputs are observable, securities are classified as Level 2 investments; otherwise, securities are classified as Level 3 investments.

Fixed income commingled funds – Some of the fixed income securities are held in commingled funds, which have daily net asset values derived from the underlying securities; these are classified as Level 2 investments.

Real estate funds – The value of the real estate funds is reported by the fund manager and is based on a valuation of the underlying properties. Inputs used in the valuation include items such as cost, discounted future cash flows, independent appraisals and market based comparable data. The real estate funds are classified as Level 3 investments.

Hedge funds – The hedge funds are invested in fund-of-fund structures and consist of multiple investments in interest and currency funds designed to hedge the risk of rate fluctuations. Given the complex nature of valuation and the broad spectrums of investments, the hedge funds are classified as Level 3 investments.

The following table represents a reconciliation of Level 3 plan assets held during the years ended March 31, 2010 and 2011:

<i>(In millions)</i>	Real Estate Funds	Hedge Funds	Other	Total
Balance at March 31, 2009	\$ 25	\$ 5	\$ 2	\$ 32
Unrealized (loss) on plan assets still held	(6)	—	—	(6)
Balance at March 31, 2010	\$ 19	\$ 5	\$ 2	\$ 26
Purchases, sales and settlements	(14)	—	—	(14)
Transfer in and/or out of Level 3	—	—	(2)	(2)
Balance at March 31, 2011	\$ 5	\$ 5	\$ —	\$ 10

Concentration of Credit Risk: We evaluated our pension plans' asset portfolios for the existence of significant concentrations of credit risk as of March 31, 2011. Types of concentrations that were evaluated include investment funds that represented 10% or more of the pension plans' net assets. As of March 31, 2011, 11% of our plan assets is comprised of Bartram International Fund, which holds only actively traded stock.

Other Defined Benefit Plans

Under various U.S. bargaining unit labor contracts, we make payments into multi-employer pension plans established for union employees. We are liable for a proportionate part of the plans' unfunded vested benefit upon our withdrawal from the plan; however, information regarding the relative position of each employer with respect to the actuarial present value of accumulated benefits and net assets available for benefits is not available. Contributions to the plans and amounts accrued were not material for the years ended March 31, 2011, 2010 and 2009.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***Defined Contribution Plans*

We have a contributory profit sharing investment plan (“PSIP”) for U.S. employees not covered by collective bargaining arrangements. Effective January 1, 2011, eligible employees may contribute to the PSIP up to 75% of their monthly eligible compensation for pre-tax contributions and up to 75% of compensation for catch-up contributions not to exceed IRS limits. The Company makes matching contributions in an amount equal to 100% of the employee’s first 3% of pay contributed and 50% for the next 2% of pay contributed. The Company also may make an additional annual matching contribution for each plan year to enable participants to receive a full match based on their annual contribution.

The Company’s leveraged employee stock ownership plan (“ESOP”) had purchased an aggregate of 24 million shares of the Company’s common stock since its inception. These purchases were financed by 10 to 20 year loans from or guaranteed by us. At March 31, 2011 and 2010, there were no outstanding ESOP loans nor the related receivables from the ESOP as the ESOP fully repaid the loans during 2010. The loans were repaid by the ESOP from interest earnings on cash balances and common dividends on unallocated shares and Company cash contributions. The ESOP loan maturities and rates were identical to the terms of related Company borrowings. Stock was made available from the ESOP based on debt service payments on ESOP borrowings. In 2011 and 2009, the Company made contributions primarily in cash or with the issuance of treasury shares. In the first quarter of 2011, all of the 24 million common shares had been allocated to plan participants. As a result, future PSIP contributions will be funded with cash or treasury shares.

The McKesson Corporation PSIP was a member of the settlement class in the Consolidated Securities Litigation Action. On April 27, 2009, the court issued an order approving the distribution of the settlement funds. On October 9, 2009, the PSIP received approximately \$119 million of the Consolidated Securities Litigation Action proceeds. Approximately \$42 million of the proceeds were attributable to the allocated shares of McKesson common stock owned by the PSIP participants during the Consolidated Securities Litigation Action class-holding period and were allocated to the respective participants on that basis in the third quarter of 2010. Approximately \$77 million of the proceeds were attributable to the unallocated shares (the “Unallocated Proceeds”) of McKesson common stock owned by the PSIP in an ESOP suspense account. In accordance with the plan terms, the PSIP distributed all of the Unallocated Proceeds to current PSIP participants after the close of the plan year in April 2010. The receipt of the Unallocated Proceeds by the PSIP was reimbursement for the loss in value of the Company’s common stock held by the PSIP in its ESOP suspense account during the Consolidated Securities Litigation Action class-holding period and was not a contribution made by the Company to the PSIP or ESOP. Accordingly, there were no accounting consequences to the Company’s financial statements relating to the receipt of the Unallocated Proceeds by the PSIP.

As a result of the PSIP’s receipt of the Unallocated Proceeds, in 2010 the Company contributed \$1 million to the PSIP. Accordingly, the PSIP expense for 2010 was nominal. In 2011, the Company resumed its contributions to the PSIP.

PSIP expense by segment for the last three years was as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2011	2010	2009
Distribution Solutions	\$ 23	\$ —	\$ 23
Technology Solutions	32	1	28
Corporate	4	—	2
PSIP expense	<u>\$ 59</u>	<u>\$ 1</u>	<u>\$ 53</u>
Cost of sales ⁽¹⁾	\$ 17	\$ —	\$ 12
Operating expenses	42	1	41
PSIP expense	<u>\$ 59</u>	<u>\$ 1</u>	<u>\$ 53</u>

(1) Amounts recorded to cost of sales pertain solely to our McKesson Technology Solutions segment.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

13. Postretirement Benefits

We maintain a number of postretirement benefits, primarily consisting of healthcare and life insurance (“welfare”) benefits, for certain eligible U.S. employees. Eligible employees consist of those who retired before March 31, 1999 and those who retired after March 31, 1999, but were an active employee as of that date, after meeting other age-related criteria. We also provide postretirement benefits for certain U.S. executives. Defined benefit plan obligations are measured as of the Company’s fiscal year-end.

The net periodic expense (income) for our postretirement welfare benefits is as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2011	2010	2009
Service cost—benefits earned during the year	\$ 1	\$ 1	\$ 1
Interest cost on projected benefit obligation	8	9	10
Amortization of unrecognized actuarial loss (gain) and prior service costs	(4)	(25)	(14)
Net periodic postretirement expense (income)	\$ 5	\$ (15)	\$ (3)

Information regarding the changes in benefit obligations for our postretirement welfare plans is as follows:

<i>(In millions)</i>	Years Ended March 31,	
	2011	2010
Change in benefit obligations		
Benefit obligation at beginning of period	\$ 154	\$ 133
Service cost	1	1
Interest cost	8	9
Actuarial loss	2	26
Benefit payments	(13)	(15)
Benefit obligation at end of period	\$ 152	\$ 154

The components of the amount recognized in accumulated other comprehensive income for the Company’s other postretirement benefits at March 31, 2011 and 2010 were net actuarial loss of \$5 million and net actuarial gain of \$1 million and net prior service credits of \$2 million and \$2 million. Other changes in benefit obligations recognized in other comprehensive income were net actuarial losses of \$6 million for 2011 and \$51 million for 2010 and net actuarial gain of \$12 million for 2009.

We estimate that the amortization of the actuarial loss from stockholders’ equity to other postretirement expense in 2012 will be \$1 million (\$4 million of actuarial gain in 2011).

Other postretirement benefits are funded as claims are paid. Expected benefit payments for our postretirement welfare benefit plans, net of expected Medicare subsidy receipts of \$1 million annually, are as follows: \$12 million annually for 2012 to 2016 and \$56 million cumulatively for 2017 through 2021. Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service. Expected contributions to be made for our postretirement welfare benefit plans are \$14 million for 2012.

Weighted-average discount rates used to estimate postretirement welfare benefit expenses were 5.33%, 7.86% and 6.19% for 2011, 2010 and 2009. Weighted-average discount rates for the actuarial present value of benefit obligations were 5.09%, 5.33% and 7.86% for 2011, 2010 and 2009.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Actuarial gain or loss for the postretirement welfare benefit plan is amortized to income or expense over a three-year period. The assumed healthcare cost trends used in measuring the accumulated postretirement benefit obligation were 8.5% and 8.5% for prescription drugs, 7.5% and 7.5% for medical and 5.8% and 6% for dental in 2011 and 2010. For 2011, 2010 and 2009, a one-percentage-point increase or decrease in the assumed healthcare cost trend rate would not have a material impact on the postretirement benefit obligations.

14. Financial Instruments and Hedging Activities

At March 31, 2011 and 2010, the carrying amounts of cash and cash equivalents, restricted cash, marketable securities, receivables, drafts and accounts payable and other current liabilities approximated their estimated fair values because of the short maturity of these financial instruments. All highly liquid debt instruments purchased with original maturity of three months or less at the date of acquisition are included in cash and cash equivalents. Included in cash and cash equivalents at March 31, 2011 and 2010, are money market fund investments of \$1.7 billion and \$2.3 billion, which are reported at fair value. The fair value of these investments was determined by using quoted prices for identical investments in active markets, which are considered to be Level 1 inputs under the fair value measurements and disclosures guidance. The carrying value of all other cash equivalents approximates fair value due to their relatively short-term nature.

The carrying amount and estimated fair value of our long-term debt and other financing was \$4.0 billion and \$4.3 billion at March 31, 2011 and \$2.3 billion and \$2.5 billion at March 31, 2010. The estimated fair value of our long-term debt and other financing was determined using quoted market prices and other inputs that were derived from available market information and may not be representative of actual values that could have been realized or that will be realized in the future.

In the normal course of business, we are exposed to interest rate changes and foreign currency fluctuations. We limit these risks through the use of derivatives such as interest rate swaps and forward foreign exchange contracts. In accordance with our policy, derivatives are only used for hedging purposes. We do not use derivatives for trading or speculative purposes. The volume of activity related to derivative financial instruments was not material for 2011, 2010 and 2009.

15. Lease Obligations

We lease facilities and equipment almost solely under operating leases. In connection with our acquisition of US Oncology, we assumed noncancellable operating lease obligations of office space and equipment. At March 31, 2011, future minimum lease payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year for years ending March 31 are:

<i>(In millions)</i>	Noncancellable Operating Leases
2012	\$ 178
2013	143
2014	115
2015	94
2016	73
Thereafter	241
Total minimum lease payments	<u>\$ 844</u>

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Rental expense under operating leases was \$157 million, \$154 million and \$146 million in 2011, 2010 and 2009. We recognize rent expense on a straight-line basis over the term of the lease, taking into account, when applicable, lessor incentives for tenant improvements, periods where no rent payment is required and escalations in rent payments over the term of the lease. Deferred rent is recognized for the difference between the rent expense recognized on a straight-line basis and the payments made per the terms of the lease. Remaining terms for facilities leases generally range from one to seven years, while remaining terms for equipment leases range from one to three years. Most real property leases contain renewal options (generally for five-year increments) and provisions requiring us to pay property taxes and operating expenses in excess of base period amounts. Sublease rental income was not material for any period presented.

16. Financial Guarantees and Warranties*Financial Guarantees*

We have agreements with certain of our Canadian customers' financial institutions under which we have guaranteed the repurchase of our customers' inventory or our customers' debt in the event these customers are unable to meet their obligations to those financial institutions. For our inventory repurchase agreement, among other requirements, inventories must be in resalable condition and any repurchase would be at a discount. The inventory repurchase agreements mostly range from one to two years. Customers' debt guarantees range from one to five years and were primarily provided to facilitate financing for certain customers. The majority of our customers' debt guarantees are secured by certain assets of the customer. We also have an agreement with one software customer that, under limited circumstances, may require us to secure standby financing. Because the amount of the standby financing is not explicitly stated, the overall amount of this guarantee cannot reasonably be estimated. At March 31, 2011, the maximum amounts of inventory repurchase guarantees and customers' debt guarantees were \$138 million and \$38 million, none of which had been accrued.

The expirations of the above noted financial guarantees are as follows: \$119 million, \$21 million, \$3 million, \$4 and \$1 million from 2012 through 2016 and \$28 million thereafter.

In addition, at March 31, 2011, our banks and insurance companies have issued \$128 million of standby letters of credit and surety bonds, which were issued on our behalf mostly related to our customer contracts and in order to meet the security requirements for statutory licenses and permits, court and fiduciary obligations and our workers' compensation and automotive liability programs.

Our software license agreements generally include certain provisions for indemnifying customers against liabilities if our software products infringe a third party's intellectual property rights. To date, we have not incurred any material costs as a result of such indemnification agreements and have not accrued any liabilities related to such obligations.

In conjunction with certain transactions, primarily divestitures, we may provide routine indemnification agreements (such as retention of previously existing environmental, tax and employee liabilities) whose terms vary in duration and often are not explicitly defined. Where appropriate, obligations for such indemnifications are recorded as liabilities. Because the amounts of these indemnification obligations often are not explicitly stated, the overall maximum amount of these commitments cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of divestiture, we have historically not made significant payments as a result of these indemnification provisions.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***Warranties*

In the normal course of business, we provide certain warranties and indemnification protection for our products and services. For example, we provide warranties that the pharmaceutical and medical-surgical products we distribute are in compliance with the Food, Drug and Cosmetic Act and other applicable laws and regulations. We have received the same warranties from our suppliers, which customarily are the manufacturers of the products. In addition, we have indemnity obligations to our customers for these products, which have also been provided to us from our suppliers, either through express agreement or by operation of law.

We also provide warranties regarding the performance of software and automation products we sell. Our liability under these warranties is to bring the product into compliance with previously agreed upon specifications. For software products, this may result in additional project costs, which are reflected in our estimates used for the percentage-of-completion method of accounting for software installation services within these contracts. In addition, most of our customers who purchase our software and automation products also purchase annual maintenance agreements. Revenues from these maintenance agreements are recognized on a straight-line basis over the contract period and the cost of servicing product warranties is charged to expense when claims become estimable. Accrued warranty costs were not material to the consolidated balance sheets.

17. Other Commitments and Contingent Liabilities

In addition to commitments and obligations in the ordinary course of business, we are subject to various claims, other pending and potential legal actions for damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of our business. As described below, many of these proceedings are at preliminary stages and many seek an indeterminate amount of damages.

When a loss is considered probable and reasonably estimable, we record a liability in the amount of our best estimate for the ultimate loss. However, the likelihood of a loss with respect to a particular contingency is often difficult to predict and determining a meaningful estimate of the loss or a range of loss may not be practicable based on the information available and the potential effect of future events and decisions by third parties that will determine the ultimate resolution of the contingency. Moreover, it is not uncommon for such matters to be resolved over many years, during which time relevant developments and new information must be reevaluated at least quarterly to determine both the likelihood of potential loss and whether it is possible to reasonably estimate a range of possible loss. When a loss is probable but a reasonable estimate cannot be made, disclosure of the proceeding is provided.

Disclosure also is provided when it is reasonably possible that a loss will be incurred or when it is reasonably possible that the amount of a loss will exceed the recorded provision. We review all contingencies at least quarterly to determine whether the likelihood of loss has changed and to assess whether a reasonable estimate of the loss or range of loss can be made. As discussed above, development of a meaningful estimate of loss or a range of potential loss is complex when the outcome is directly dependent on negotiations with or decisions by third parties, such as regulatory agencies, the court system and other interested parties. Such factors bear directly on whether it is possible to reasonably estimate a range of potential loss and boundaries of high and low estimates.

We are party to the legal proceedings described below. Unless otherwise stated, we are currently unable to estimate a range of reasonably possible losses for the unresolved proceedings described below. Should any one or a combination of more than one of these proceedings be successful, or should we determine to settle any or a combination of these matters, we may be required to pay substantial sums, become subject to the entry of an injunction or be forced to change the manner in which we operate our business, which could have a material adverse impact on our financial position or results of operations.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***I. Average Wholesale Price Litigation*

The following matters involve a drug reimbursement benchmark referred to as the “AWP” utilized by some public and private payers to calculate at least some portion of the amount a pharmacy will be reimbursed for dispensing a covered prescription drug.

A. In re McKesson Governmental Entities Average Wholesale Price Litigation

Commencing in May of 2008, a series of complaints were filed in the United States District Court for the District of Massachusetts by various public payers — governmental entities that paid any portion of the price of certain prescription drugs — alleging that in late 2001 the Company and First DataBank, Inc. (“FDB”), a publisher of pharmaceutical pricing information, conspired to improperly raise the published AWP for certain prescription drugs, and that this alleged conduct resulted in higher drug reimbursement payments by plaintiffs and others similarly situated. These actions were all consolidated under the caption *In re McKesson Governmental Entities Average Wholesale Price Litigation*. A description of these actions is as follows:

The San Francisco Action

On May 20, 2008, an action was filed by the San Francisco Health Plan on behalf of itself and a purported class of political subdivisions in the State of California and by the San Francisco City Attorney on behalf of the “People of the State of California” in the United States District Court for the District of Massachusetts against the Company as the sole defendant, alleging violations of the federal Racketeer Influenced and Corrupt Organizations Act (“RICO,”) 18 U.S.C. § 1962(c), the California Cartwright Act, California's False Claims Act, California Business and Professions Code §§ 17200 and 17500 and seeking damages, treble damages, civil penalties, restitution, interest and attorneys' fees, all in unspecified amounts, *San Francisco Health Plan, et al. v. McKesson Corporation*, (Civil Action No. 1:08-CV-10843-PBS) (“San Francisco Action”). On July 3, 2008, an amended complaint was filed in the San Francisco Action adding a claim for tortious interference. On January 13, 2009, a second amended complaint was filed in the San Francisco Action that abandoned all previously alleged antitrust claims.

The Connecticut Action

On May 28, 2008, an action was filed by the State of Connecticut in the United States District Court for the District of Massachusetts against the Company, again as the sole defendant, alleging violations of civil RICO, the Sherman Act and the Connecticut Unfair Trade Practices Act and seeking damages, treble damages, restitution, interest and attorneys' fees, all in unspecified amounts, *State of Connecticut v. McKesson Corporation*, (Civil Action No. 1:08-CV-10900-PBS) (“Connecticut Action”). On January 13, 2009, an amended complaint was filed in the Connecticut Action abandoning all previously alleged antitrust claims.

On October 15, 2010, the Company executed an agreement to settle the Connecticut Action for \$26 million. The settlement, which was not subject to court approval, includes an express denial of liability and a release by the State of Connecticut of the Company as to all matters alleged or which could have been alleged in the action. As a result, during the second quarter of 2011, the Company recorded a \$24 million pre-tax charge. On November 8, 2010, the Court entered a Notice of Dismissal with prejudice in the Connecticut Action pursuant to the October 15 settlement agreement. The Connecticut Action has thus concluded.

The Douglas County, Kansas Nationwide Class Action

On August 7, 2008, an action was filed in the United States District Court for the District of Massachusetts by the Board of County Commissioners of Douglas County, Kansas on behalf of itself and a purported national class of state, local and territorial governmental entities against the Company and FDB alleging violations of civil RICO and federal antitrust laws and seeking damages and treble damages, as well as injunctive relief, interest, attorneys' fees and costs of suit, all in unspecified amounts, *Board of County Commissioners of Douglas County, Kansas v. McKesson Corporation, et al.*, (Civil Action No. 1:08-CV-11349-PBS) (“Douglas County, Kansas Action”).

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Separate class actions based on essentially the same factual allegations were subsequently filed against the Company and FDB in the United States District Court for the District of Massachusetts by the City of Panama City, Florida on August 18, 2008 ("Florida Action"), the State of Oklahoma on October 15, 2008 ("Oklahoma Action"), the County of Anoka, Minnesota on November 3, 2008 ("Minnesota Action"), Baltimore, Maryland on November 7, 2008 ("Maryland Action"), Columbia, South Carolina on December 12, 2008 ("South Carolina Action") and Goldsboro, North Carolina on December 15, 2008 ("North Carolina Action") in each case on behalf of the filing entity and a class of state and local governmental entities within the same state, alleging violations of civil RICO, federal and state antitrust laws and various state consumer protection and deceptive and unfair trade practices statutes and seeking damages and treble damages, civil penalties, as well as injunctive relief, interest, attorneys' fees and costs of suit, all in unspecified amounts.

On December 24, 2008, an amended and consolidated class action complaint was filed in the Douglas County, Kansas Action. The amended complaint added the named plaintiffs from the Florida, Oklahoma, Minnesota, Maryland, South Carolina and North Carolina Actions and abandoned the previously alleged antitrust claims. On January 9, 2009, the Florida, Oklahoma, Minnesota, Maryland, South Carolina and North Carolina Actions were voluntarily dismissed without prejudice. On March 3, 2009, a second amended and consolidated class action complaint was filed in the Douglas County, Kansas Action, adding the state of Montana as a plaintiff, adding Montana state law claims and adding a claim for tortious interference.

On February 10, 2009, plaintiffs in the Douglas County, Kansas Action filed a notice of dismissal without prejudice of defendant FDB. On April 2, 2009, the Company filed answers to each of the pending complaints in the San Francisco Action, the Connecticut Action and the County of Douglas, Kansas Action, denying the core factual allegations and asserting numerous affirmative defenses. On April 9, 2009, the Company filed a demand for a jury in each of these actions.

On May 20, 2009, an action was filed in the United States District Court for the District of Massachusetts by Oakland County, Michigan and the City of Sterling Heights, Michigan against the Company as the sole defendant, alleging violations of RICO, the Michigan Antitrust Reform Act, the Michigan Consumer Protection Act, the California Cartwright Act and common law fraud and seeking damages, treble damages, interest and attorneys' fees, all in unspecified amounts, *Oakland County, Michigan et al. v. McKesson Corporation*, (Civil Action No. 1:09-CV-10843-PBS) ("Michigan Action"). On August 4, 2009, the court granted the Company's motion to stay the Michigan Action.

On February 19, 2010, discovery closed in the consolidated public payer actions. On April 12, 2010, plaintiffs in the Douglas County, Kansas Action withdrew their motion to certify an opt-in state Medicaid class. A hearing on the remaining classes in the Douglas County, Kansas and San Francisco Actions was held on August 31, 2010.

On August 5, 2010, the court set a trial date of January 24, 2011, for the claims asserted by the State of Oklahoma on behalf of its Medicaid program in the Douglas County, Kansas Action, or, in the alternative, the claims asserted by the State of Montana on behalf of its Medicaid program in the Douglas County, Kansas Action if the Oklahoma Medicaid claims were resolved before the final pretrial conference, which the court scheduled for January 19, 2011. On December 2, 2010, the Company executed a Memorandum of Understanding documenting an agreement in principle with the States of Oklahoma and Montana to settle and release those States' share of their Medicaid claims in the Douglas County, Kansas Action subject to consent from the federal government not to seek any portion of the settlement recovery. In light of the Memorandum of Understanding, on December 7, 2010, the Court vacated the previously reported trial date of January 24, 2011. On January 11, 2011, the court entered a settlement order of dismissal with respect to the Medicaid claims of Oklahoma and Montana, subject to reopening of those actions if the settlement was not consummated by April 11, 2011. On March 23, 2011, the court granted an unopposed motion filed by the States of Oklahoma and Montana to extend the date on which their Medicaid claims would be dismissed.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

On March 4, 2011, the court entered an order granting in part, and denying in part, plaintiffs' motions for class certification in the Douglas County, Kansas Action and denying plaintiff's motion for class certification in the San Francisco Action. Specifically, the court denied the San Francisco Health Plan's motion to certify a class of governmental entities within the State of California including the state of California itself. In the Douglas County, Kansas Action, the court certified a nationwide class comprised of all non-federal and non-state governmental entities for liability and equitable relief for the period from August 1, 2001, to June 2, 2005, and for damages for the period August 1, 2001, to December 31, 2003.

On March 14, 2011, plaintiffs filed a motion for reconsideration to extend the liability-only class period from June 2, 2005, to September 26, 2009. On March 30, 2011, the court granted, in part, plaintiffs' motion for reconsideration by extending the liability-only class period from June 2, 2005, to October 6, 2006.

On March 18, 2011, the Company filed a petition with the Court of Appeals for the First Circuit seeking permission to appeal the district court's March 4, 2011 class certification order on the grounds that it improperly certified a damages class based on an aggregate damages model that improperly included workers' compensation programs. On March 31, 2011, plaintiffs filed an answer in opposition to the Company's petition as well as a cross-petition for review of the district court's decision to exclude all state entities from the certified class. The First Circuit has not yet ruled on the parties' petitions. No trial date is set in the San Francisco or Douglas County, Kansas Actions.

B. State Medicaid AWP Cases

Beginning in September 2010, a series of suits were filed by individual states in jurisdictions other than the United States District Court for the District of Massachusetts based on essentially the same factual allegations as alleged in *In re McKesson Governmental Entities Average Wholesale Price Litigation*. A description of these actions is as follows:

The Kansas Action

On September 13, 2010, an action was filed in the Kansas state court of Wyandotte County by the State of Kansas against the Company and FDB asserting claims under the Kansas Restraint of Trade Act, the Kansas Consumer Protection Act, and the Kansas False Claims Act, and for civil conspiracy, fraud, unjust enrichment, and breach of contract, and seeking damages and treble damages, civil penalties, as well as injunctive relief, interest, disgorgement of profits, attorneys' fees and costs of suit, all in unspecified amounts, *State of Kansas ex rel. Steve Six v. McKesson Corporation, et al.*, (Case No. 10CV1491). On November 22, 2010, the Company filed a motion to dismiss the Kansas Action. On February 24, 2011, the court denied the Company's motion to dismiss. The case is set for trial in August 2012.

The Mississippi Action

On October 8, 2010, an action was filed in the Mississippi state court of Hinds County by the State of Mississippi against the Company asserting claims under RICO, the Mississippi Medicaid Fraud Control Act, the Mississippi Consumer Protection Act, and for civil conspiracy, tortious interference with contract, unjust enrichment, and fraud, and seeking damages and treble damages, civil penalties, restitution, as well as injunctive relief, interest, attorneys' fees and costs of suit, all in unspecified amounts, *State of Mississippi v. McKesson Corporation, et al.*, (Case No. 251-10-862CIV). On November 9, 2010, the Company filed a Notice of Removal to the United States District Court, Southern District of Mississippi. On January 27, 2011, the case was remanded back to Mississippi state court after the state dismissed its RICO claim. On February 15, 2011, the Company filed a motion to transfer the Mississippi Action from the Circuit Court of Hinds County to the Chancery Court of Hinds County, or in the alternative, to dismiss the State's claim under the Mississippi Consumer Protection Act for lack of subject matter jurisdiction. The trial court has not yet ruled on the Company's motion.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***The Alaska Action*

On October 12, 2010, an action was filed in Alaska state court by the State of Alaska against the Company and FDB asserting claims under state unfair and deceptive trade practices statutes, and for fraud and civil conspiracy, and seeking damages, treble damages, punitive damages, civil penalties, disgorgement of profits, as well as declaratory relief, interest, attorneys' fees and costs of suit, all in unspecified amounts, *State of Alaska v. McKesson Corporation, et al.*, (Case No. 3AN-10-11348-CI). The Company filed a motion to dismiss the complaint on January 10, 2011. A hearing on the Company's motion to dismiss has not yet been scheduled.

The Wisconsin Qui Tam Action

On October 18, 2010, the Company was informed that a qui tam action was previously filed by four law firms in Wisconsin state court of Dane County, purportedly on behalf of the State of Wisconsin against the Company based on essentially the same factual allegations as alleged in *In re McKesson Governmental Entities Average Wholesale Price Litigation*, asserting claims under the Wisconsin False Claims for Medical Assistance statute, and seeking damages, treble damages, civil penalties, as well as attorneys' fees and costs of suit, all in unspecified amounts, *State of Wisconsin ex rel. Hagens Berman Sobol Shapiro LLP, et al. v. McKesson Corporation*, (Case No. 10CV3411). On August 26, 2010, the Wisconsin Department of Justice filed a motion to dismiss this qui tam action, and on December 14, 2010, the court granted the State's motion. No appeal has been filed.

The Utah Action

On October 20, 2010, an action was filed against the Company in the United States District Court, Northern District of California, by the State of Utah asserting claims under RICO and for civil conspiracy, tortious interference with contract, and unjust enrichment, and seeking damages and treble damages, restitution, as well as injunctive relief, interest, attorneys' fees and costs of suit, all in unspecified amounts, *State of Utah v. McKesson Corporation, et al.*, (Case No. CV 10-4743-SC). On December 22, 2010, the Company filed a motion to dismiss the Utah Action, which has not yet been ruled upon.

The Arizona Administrative Proceeding

On November 5, 2010, the Company received a Notice of Proposed Civil Monetary Penalty from the Office of Inspector General ("OIG") for the Arizona Health Care Cost Containment System ("AHCCCS") purporting to initiate an administrative claim process against the Company, and seeking civil penalties in the amount of \$101 million and an assessment in the amount of \$112 million for false claims allegedly presented to the Arizona Medicaid program, (Case No. 2010-1218).

On February 28, 2011, the Company filed a complaint in Arizona Superior Court, County of Maricopa, against AHCCCS and its Director, alleging that the administrative proceeding commenced by OIG violates the Arizona Administrative Procedure Act and the Due Process Clauses of the Arizona Constitution and the United States Constitution, and seeking to enjoin OIG's administrative proceeding, a declaratory judgment that AHCCCS lacks jurisdiction and legal authority to impose penalties or assessments against the Company, as well as costs of suit, *McKesson Corporation v. AHCCCS*, (Case No. CV-2011-004446). Also on February 28, 2011, the Company filed an application for an interlocutory order staying, or alternatively dismissing, OIG's administrative proceeding. On April 28, 2011, the trial court ruled that AHCCCS has no jurisdiction to impose penalties or assessments against the Company and enjoined AHCCCS from prosecuting or reinitiating any penalty proceeding against the Company.

The Hawaii Action

On November 10, 2010, an action was filed in Hawaii state court by the State of Hawaii against the Company and FDB asserting claims under the Hawaii False Claims Act, state unfair and deceptive trade practices statutes, fraud, and civil conspiracy, and seeking damages, treble damages, punitive damages, civil penalties, disgorgement of profits, as well as interest, attorneys' fees and costs of suit, all in unspecified amounts, *State of Hawaii v. McKesson Corporation, et al.*, (Civil No. 10-1-2411-11-GWBC). The Company filed a motion to dismiss the complaint on January 14, 2011, which was denied by the trial court on April 12, 2011.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***The Louisiana Action*

On December 20, 2010, an action was filed in Louisiana state court by the State of Louisiana against the Company asserting claims under state unfair and deceptive trade practices statutes, the Louisiana Medical Assistance Programs Integrity Law, state antitrust statutes, and for fraud, negligent misrepresentation, civil conspiracy, and unjust enrichment, seeking damages, statutory fines, civil penalties, disgorgement of profits, as well as interest, attorneys' fees and costs of suit, all in unspecified amounts, *State of Louisiana v. McKesson Corporation*, (Case No. C597634 Sec. 23). The Company filed a motion to dismiss the complaint on March 7, 2011. A hearing on the Company's motion to dismiss is scheduled for May 9, 2011.

C. The New Jersey United States' Attorney's Office AWP Investigation

In June of 2007, the Company was informed that a qui tam action by an unknown relator was previously filed in the United States District Court in the District of New Jersey, purportedly on behalf of the United States, twelve states (California, Delaware, Florida, Hawaii, Illinois, Louisiana, Massachusetts, Nevada, New Mexico, Tennessee, Texas and Virginia) and the District of Columbia against the Company and seven other defendants. The Company has not been provided with the original complaint, which was filed in 2005, and does not know the identity of the original parties to the action. The Company was advised that the United States and the various states are considering whether to intervene in the suit, but none has done so to date. The suit thus remains under seal and has not been served on the Company.

In January 2009, the Company was provided with a courtesy copy of a third amended complaint filed in the qui tam action. This complaint has also not been served on the Company. The third amended complaint alleges multiple claims against the Company under the federal False Claims Act and the various states' and District of Columbia's false claims statutes. These and additional claims are also alleged against other parties. The claims arise out of alleged manipulation of AWP by defendants which plaintiffs claim caused them to pay more than they should have in reimbursement for prescription drugs covered by various government programs that base reimbursement payments on AWP. The complaint is brought on behalf of the United States, the twelve states named above, ten additional states (Georgia, Indiana, Michigan, Montana, New Hampshire, New Jersey, New York, Oklahoma, Rhode Island and Wisconsin) and the District of Columbia and seeks damages including treble damages and civil penalties (which the relator claims would be several billion dollars) as provided under the various false claims act statutes, as well as attorneys' fees and costs.

As has also been previously reported regarding the New Jersey qui tam action, the United States and various states have been considering whether to intervene in the suit, but none has done so to date. The Company has at all times cooperated with these investigations, and has engaged in settlement discussions with the purpose of resolving all Medicaid related AWP claims by the states and federal government. The pace and progress of settlement discussions accelerated during and after the third quarter of 2011. Except as previously reported with respect to the States of Connecticut, Oklahoma and Montana, the Company has not reached agreement relating to those claims.

As previously reported, during the third quarter of 2009, the Company recorded a pre-tax charge of \$143 million to establish a reserve for estimated probable losses related to pending and expected AWP claims by public payer entities. As of March 31, 2009 and 2010, the reserve relating to AWP public entity claims was \$143 million. The Company recorded an additional pre-tax charge of \$24 million for the settlement with the State of Connecticut during the second quarter of 2011. In November 2010, a cash payment of \$26 million was made for this settlement. Following the Company's most recent review of the reserve for estimated probable losses from current and possible future public entity AWP claims, which review included consideration of the pace and progress of the above described settlement discussions during and after the third quarter relating to state and federal Medicaid claims, the Company recorded a pre-tax charge of \$189 million within its Distribution Solutions segment's operating expenses during the third quarter of 2011. As of March 31, 2011, the reserve relating to AWP public entity claims was \$330 million and was included in other current liabilities in the consolidated balance sheet. However, in view of the number of outstanding cases and expected future claims, and the uncertainties of the timing and outcome of this type of litigation, it is possible that the ultimate costs of these matters may exceed or be less than the reserve.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

II. Other Litigation and Claims

On April 7, 2010, an action was filed in the Superior Court of the State of California for the County of Los Angeles against, among others, the Company, its indirect subsidiary, NDCHealth Corporation (“NDC”) and “Relay Health,” a trade name under which NDC conducts business, *Rodriguez et al. v. Etreby Computer Company et al.*, (Civ. No. BC435303) (“Rodriguez”). The plaintiffs in Rodriguez purport to represent a class of California residents whose individual confidential medical information was allegedly illegally released and used by defendants. Plaintiffs also purport to bring their claims as a private Attorney General action. The claims asserted in the complaint against the Company defendants include negligence, statutory violations and violation of California Business and Professions Code, Sections 17200 *et seq.*, covering unfair, unlawful and fraudulent business acts and practices. The statutory violations alleged by plaintiffs purport to arise out of California Civil Code, Sections 56 through 56.37, also known as the Confidentiality of Medical Information Act (“CMIA”). The complaint seeks compensatory and statutory damages under the CMIA, equitable and injunctive relief, as well as interest and attorneys’ fees and costs, all in unspecified amounts. On May 10, 2010, defendants removed the action to United States District Court for the Central District of California, *Rodriguez et al. v. Etreby Computer Company et al.*, (Civil Action No. CV 10-3522-VBF). On June 10, 2010, the Company and NDC moved to dismiss the complaint on grounds that it fails to allege the required element of knowledge by defendants, fails to allege actual harm to any plaintiff and improperly names certain defendants, including the Company and RelayHealth. On July 23, 2010, the court granted defendants’ motion to dismiss on grounds that plaintiffs had failed to sufficiently plead any of their causes of action and gave plaintiffs until August 9, 2010 to file an amended pleading. On December 9, 2010, the parties executed a settlement agreement which, in consideration of payment by the Company of a non-material sum, resolves the claims of all class members who do not affirmatively opt out of the class. On January 12, 2011, the trial court issued an order granting preliminary approval of the settlement, directing notice to the class and setting a hearing for final approval of the settlement. The final approval hearing is presently set to occur on June 27, 2011.

On October 3, 2008, the United States filed a complaint in intervention in a pending qui tam action in the United States District Court for the Northern District of Mississippi, naming as defendants, among others, the Company and its former indirect subsidiary, McKesson Medical-Surgical MediNet Inc. (“MediNet”), now merged into and doing business as McKesson Medical-Surgical MediMart Inc., *United States ex rel. Jamison v. McKesson Corporation, et al.*, (Civil Action No. 2:08-CV-00214-SA). The United States (“USA”) alleges violations of the federal False Claims Act, 31 U.S.C. Sections 3729-33, in connection with billing and supply services rendered by MediNet to the long-term care facility operator co-defendants. The action seeks monetary damages in an unstated amount. On July 7, 2009, defendants filed motions to dismiss the action filed by the relator, arguing that the relator was not the original source of the claims which he attempts to pursue in his qui tam action. On March 25, 2010, the trial court granted defendants’ motions to dismiss the relator and his complaint, which ruling has been appealed by the relator to the United States Court of Appeals for the Fifth Circuit. On June 2, 2010, the USA filed a motion for partial summary judgment, seeking a finding that the Company’s co-defendant, a Medicare Part B supplier, failed to comply with certain of the 21 Supplier Standards (“Standards”) established by federal regulations covering such Medicare suppliers, and that the relevant claims for which MediNet provided contract billing and/or supply services were rendered “false” by reason of such non-compliance. On July 2, 2010 the Company and MediNet filed their opposition to the USA’s motion and themselves moved for summary judgment as to certain counts based on numerous arguments, including that the USA cannot, as a matter of law, establish that the co-defendant Medicare Part B supplier failed to meet the Standards. On March 28, 2011, the trial court issued its order denying the motion of the USA and granting the partial summary judgment motions of the Company and its co-defendants on grounds that, as a matter of law, the Standards had not been violated. All causes of action based on the alleged failure to comply with the Standards were dismissed. Discovery regarding the balance of the USA’s allegations continues. Trial is presently set to commence on February 6, 2012.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

On July 14, 2006, an action was filed in the United States District Court for the Eastern District of New York against McKesson, two McKesson employees, several other drug wholesalers and numerous drug manufacturers, *RxUSA v. Alcon Laboratories et al.*, (Case No. 06-CV-3447-DRH). Plaintiff alleges that the Company, along with various other defendants, unlawfully engaged in monopolization and attempted monopolization of the sale and distribution of pharmaceutical products in violation of the federal antitrust laws, as well as in violation of New York State's Donnelly Act. There are also alleged violations of the Sarbanes-Oxley Act of 2002, the Donnelly Act and Sections 1962 (c) and (d) of the federal civil RICO statute. Plaintiff alleges generally that defendants have individually, and in concert with one another, taken actions to create and maintain a monopoly and to exclude secondary wholesalers, such as the plaintiff, from the wholesale pharmaceutical industry. The complaint seeks monetary damages of approximately \$1.6 billion and also seeks treble damages, attorneys' fees and injunctive relief. All defendants filed motions to dismiss all claims. The motions were briefed and submitted to the trial court on March 13, 2007. On September 24, 2009, the trial court issued its order granting "with prejudice" defendants' motions to dismiss and on September 28, 2009, the trial court entered judgment dismissing all of plaintiff's claims. On October 23, 2009, plaintiff filed a Notice of Appeal in the United States Court of Appeals for the Second Circuit seeking reversal of the trial court's orders of dismissal and judgment. On August 30, 2010 the Court of Appeals affirmed the rulings of the trial court, including the dismissal of plaintiff's entire case with prejudice. The period for seeking an appeal to the United States Supreme Court having expired, this matter has been concluded.

The Company is a defendant in approximately 305 cases alleging that the plaintiffs were injured by Vioxx, an anti-inflammatory drug manufactured by Merck & Company ("Merck"). The cases typically assert causes of action for strict liability, negligence, breach of warranty and false advertising for improper design, testing, manufacturing and warnings relating to the manufacture and distribution of Vioxx. None of the cases involving the Company is scheduled for trial. The Company has tendered each of these cases to Merck and has reached an agreement with Merck to defend and indemnify the Company.

Our subsidiary, Northstar Rx LLC, is one of multiple defendants in approximately 350 cases alleging that plaintiffs were injured after ingesting Reglan and/or its generic equivalent, metoclopramide. The cases usually include claims for strict liability, failure to warn, negligence, and breach of warranty. Most of these cases are pending in state courts in Pennsylvania, California and New Jersey, with other cases pending in Alabama, Louisiana, Missouri, Mississippi, Oklahoma, Oregon and Tennessee. The first case involving Northstar Rx is set for trial in September 2011 in Pennsylvania. Northstar Rx's insurers are providing coverage for these cases. The Company is also named in approximately 550 cases as a distributor of these products.

On September 15, 2010, an action was filed in the United States District Court for the Western District of Wisconsin against the Company by Independent Pharmacy Cooperative, a Wisconsin based cooperative purchasing organization for independent pharmacies, alleging that the Company has breached, and continues to breach, a February 21, 2003, supply agreement between the parties, *Independent Pharmacy Cooperative, v. McKesson Corporation*, (Case No. 10-CV-00527 (BC)). In addition to alleging breach of contract, plaintiff alleges breach of the implied covenant of good faith and fair dealing in connection with the supply agreement and intentional interference with contractual relations between plaintiff and its members. In its complaint, plaintiff claims that the Company has caused certain pharmacies to terminate their memberships in plaintiff's cooperative and has entered into separate agreements intended to cause members to terminate in the future. Plaintiff seeks declaratory and injunctive relief, monetary damages in an unspecified amount, punitive damages, attorneys' fees and costs of suit. On October 28, 2010 the Company filed a motion to dismiss plaintiff's intentional interference with contractual relations cause of action on grounds, among others, that Wisconsin's "economic loss" doctrine, which requires parties seeking economic loss to pursue contract, not tort, claims, required dismissal of plaintiff's interference claim as a matter of law. On March 23, 2011 the court granted the Company's motion and dismissed the plaintiff's interference cause of action based on the economic loss doctrine. On March 24, 2011 this action was dismissed "with prejudice" by stipulation of the parties and without any payment by the Company.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

On January 4, 2011, the Company was served with a qui tam complaint that was originally filed in November 2005 in the United States District Court for the Eastern District of Pennsylvania by a relator, a former employee of a Johnson & Johnson affiliate, against the Company, Johnson & Johnson and its affiliate companies, and Omnicare, Inc., alleging that the Company engaged in conduct that violated the federal Anti-Kickback Statute, causing subsequent claims for certain drugs manufactured by Johnson & Johnson to be submitted in violation of the federal False Claims Act and the false claims act statutes of various states, *United States ex rel. Scott Bartz v. Ortho McNeil Pharmaceuticals, Inc., et al.*, (Case No. 2:05-cv-06010). The United States declined to intervene in the suit, which alleges that the Company received illegal “kickbacks” from Johnson & Johnson that were disguised as discounts and rebates. On February 23, 2011, the case was transferred to the District of Massachusetts. The Company has not yet responded to the complaint.

In August of 2010, the Company was notified by the United States Attorneys’ Office in Kansas City that a qui tam action had been filed on an unidentified date by two relators, a former pharmacy customer of the Company and the customer’s advisor, in which the relators allege that in or about January of 2006, the Company and a competitor drug wholesaler engaged in conduct that violated the federal Anti-Kickback Statute, causing subsequent claims by the customer relator to be submitted in violation of the federal False Claims Act, *United States ex rel. Saleaumua et al. v. McKesson Corporation et al.*, (Case No. 4:08-CV-0848 (ODS)). The complaint alleges that the defendants’ conduct prior to the Company’s losing the account to the competitor in January of 2006, caused the customer relator to file subsequent claims in violation of the False Claims Act. The complaint seeks monetary damages in an unspecified amount, as well as attorneys’ fees and costs. The complaint has not been served on the Company. On April 22, 2011, the Company was informed by the United States Attorney’s Office that the Department of Justice had determined not to intervene against McKesson and that the qui tam action would be dismissed.

III. Government Investigations and Subpoenas

From time-to-time, the Company receives subpoenas or requests for information from various government agencies. The Company generally responds to such subpoenas and requests in a cooperative, thorough and timely manner. These responses sometimes require considerable time and effort and can result in considerable costs being incurred by the Company. Such subpoenas and requests also can lead to the assertion of claims or the commencement of civil or criminal legal proceedings against the Company and other members of the health care industry, as well as to settlements. In addition to the government investigations associated with the matters reported on in *Other Litigation and Claims* above, examples of such requests and subpoenas include the following: (1) the Company has responded to a request from the Federal Trade Commission for certain documents as part of a non-public investigation to determine whether the Company may have engaged in anti-competitive practices with other wholesale pharmaceutical distributors in order to limit competition for provider customers seeking distribution services; (2) the Company has received and responded to a Civil Investigative Demand from the Attorney General’s Office of the State of Tennessee related to an investigation into possible violations of the Tennessee Medicaid False Claims Act in connection with repackaged pharmaceuticals; (3) the Company has responded to a subpoena from the office of the Attorney General of the State of New York requesting documents and other information concerning its participation in the secondary or “alternative source” market for pharmaceutical products; (4) the Company has responded to subpoenas and requests for information from a number of Offices of state Attorney Generals or other state agencies, relating to the pricing for branded and generic drugs; and (5) the Company has completed its response to a subpoena, issued by the United States Attorney’s Office in Houston, which seeks documents relating to billing and collection services performed by a Company subsidiary for certain healthcare operations associated with the University of Texas from 2004 through the dates of the subpoenas, which investigation the Company has been informed has been closed.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

As previously reported, on January 26, 2007, the Company acquired Per-Se Technologies, Inc. ("Per-Se"), which became a wholly-owned subsidiary. Prior to its acquisition, Per-Se had publicly disclosed that in December 2004, the SEC issued a formal order of investigation relating to accounting matters at NDC, a then public company, which was acquired by Per-Se in January 2006, prior to the Company's acquisition of Per-Se. In March 2005, NDC restated its financial statements for the fiscal years ended May 28, 2004, May 30, 2003 and May 31, 2002, and for the fiscal quarters ended August 22, 2004, and August 29, 2005, to correct errors relating to certain accounting matters. NDC produced documents to the SEC and fully cooperated with the SEC in its investigation. The SEC has taken testimony from a number of current and former NDC employees. There has been no activity in this matter for some time and the SEC has taken no action against NDC or its successor to date.

Prior to its recent acquisition by the Company, US Oncology was informed that the United States Federal Trade Commission ("FTC") and the Attorney General for the State of Texas had opened investigations to determine whether a transaction in which certain Austin, Texas based oncology physicians became employees of an existing Texas US Oncology affiliated oncology practice group violated relevant state or federal antitrust laws. US Oncology has responded to requests for information from the government agencies and the Company has continued to cooperate with the FTC and the Texas Attorney General regarding these investigations.

IV. Environmental Matters

Primarily as a result of the operation of the Company's former chemical businesses, which were fully divested by 1987, the Company is involved in various matters pursuant to environmental laws and regulations. The Company has received claims and demands from governmental agencies relating to investigative and remedial actions purportedly required to address environmental conditions alleged to exist at eight sites where it, or entities acquired by it, formerly conducted operations and the Company, by administrative order or otherwise, has agreed to take certain actions at those sites, including soil and groundwater remediation. In addition, the Company is one of multiple recipients of a New Jersey Department of Environmental Protection Agency directive and a separate United States Environmental Protection Agency directive relating to potential natural resources damages ("NRD") associated with one of these eight sites. Although the Company's potential allocation under either directive cannot be determined at this time, it has agreed to participate with a potentially responsible party ("PRP") group in the funding of an NRD assessment, the costs of which are reflected in the aggregate estimates set forth below.

Based on a determination by the Company's environmental staff, in consultation with outside environmental specialists and counsel, the current estimate of the Company's probable loss associated with the remediation costs for these eight sites is \$7.5 million, net of approximately \$1.9 million that third parties have agreed to pay in settlement or is expected, based either on agreements or nonrefundable contributions which are ongoing, to be contributed by third parties. The \$7.5 million is expected to be paid out between April 2011 and March 2031. The Company's estimated probable loss for these environmental matters has been entirely accrued for in the accompanying consolidated balance sheets.

In addition, the Company has been designated as a PRP under the Superfund law for environmental assessment and cleanup costs as the result of its alleged disposal of hazardous substances at 19 sites. With respect to these sites, numerous other PRPs have similarly been designated and while the current state of the law potentially imposes joint and several liability upon PRPs, as a practical matter, costs of these sites are typically shared with other PRPs. The Company's estimated probable loss at those 19 sites is approximately \$0.9 million, which has been entirely accrued for in the accompanying consolidated balance sheets. The aggregate settlements and costs paid by the Company in Superfund matters to date have not been significant.

V. Other Matters

The Company is involved in various other litigation and governmental proceedings, not described above, that arise in the normal course of business. While it is not possible to determine with certainty the ultimate outcome or the duration of any such litigation or governmental proceedings, the Company believes, based on current knowledge and the advice of counsel, that such litigation and proceedings will not have a material impact on the Company's financial position or results of operations.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)****18. Stockholders' Equity**

Each share of the Company's outstanding common stock is permitted one vote on proposals presented to stockholders and is entitled to share equally in any dividends declared by the Company's Board of Directors (the "Board"). In May 2010, the quarterly dividend was raised from \$0.12 to \$0.18 per common share. Dividends were \$0.72 per share in 2011 and \$0.48 per share in 2010 and 2009. In April 2011, the Board approved an increase in the quarterly dividend from \$0.18 to \$0.20 per share, applicable to ensuing quarterly dividend declarations. The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon the Company's future earnings, financial condition, capital requirements and other factors.

Share Repurchase Plans

In April 2010, the Board authorized the repurchase of up to an additional \$1.0 billion of the Company's common stock and in October 2010, authorized the repurchase of up to an additional \$1.0 billion of the Company's common stock. The Board previously authorized the repurchase of up to \$1.0 billion in April 2008. As of March 31, 2011, \$500 million remained available for future repurchases under the October 2010 authorization. In April 2011, the Board authorized the repurchase of up to an additional \$1.0 billion of the Company's common stock. Stock repurchases may be made from time-to-time in open market transactions, privately negotiated transactions, through accelerated share repurchase ("ASR") programs, or by any combination of such methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations and other market and economic conditions.

In May 2010, we entered into an ASR program with a third party financial institution to repurchase \$1.0 billion of the Company's common stock. As a result of the ASR program, we repurchased 12.7 million shares for \$1.0 billion during the first quarter of 2011, which was funded with cash on hand. The May 2010 ASR program was completed on July 26, 2010 and we received 1.9 million additional shares on July 29, 2010. The total number of shares repurchased under this program was 14.6 million shares at an average price per share of \$68.66.

In March 2011, we entered into another ASR program with a third party financial institution to repurchase \$275 million of the Company's common stock. The program was funded with cash on hand. As of March 31, 2011, we had received 3.1 million shares representing the minimum number of shares due under the program. The ASR program was completed on May 2, 2011 and we received 0.4 million additional shares on May 5, 2011. The total number of shares repurchased under this ASR program was 3.5 million shares at an average price per share of \$79.65.

Total shares repurchased over the last three years were:

<i>(in millions, except per share data)</i>	Years Ended March 31,		
	2011	2010	2009
Number of shares repurchased ⁽¹⁾	29	8	10
Average price paid per share	\$ 69.62	\$ 41.47	\$ 50.52
Total value of shares repurchased	\$ 2,032	\$ 299	\$ 484

(1) All of the shares repurchased were part of publically announced programs. The number of shares purchased reflects rounding adjustments.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

In July 2008, the Board authorized the retirement of shares of the Company's common stock that may be repurchased from time-to-time pursuant to its stock repurchase program. In 2009, 4 million repurchased shares for a total of \$204 million, were formally retired by the Company. The retired shares constitute authorized but unissued shares. We elected to allocate any excess of share repurchase price over par value between additional paid-in capital and retained earnings. As such, \$165 million was recorded as a decrease to retained earnings.

Accumulated Other Comprehensive Income (Loss)

Information regarding our accumulated other comprehensive income (loss) is as follows:

<i>(In millions)</i>	March 31,	
	2011	2010
Unrealized net loss and other components of benefit plans, net of tax	\$ (157)	\$ (162)
Translation adjustments	244	168
Total	\$ 87	\$ 6

19. Related Party Balances and Transactions

Notes receivable outstanding from certain of our current and former officers and senior managers totaled \$15 million and \$16 million at March 31, 2011 and 2010. These notes related to purchases of common stock under our various employee stock purchase plans. The notes bear interest at rates ranging from 4.7% to 7.1% and were due at various dates through February 2004. Interest income on these notes is recognized only to the extent that cash is received. These notes, which are included in other capital in the consolidated balance sheets, were issued for amounts equal to the market value of the stock on the date of the purchase and are at full recourse to the borrower. At March 31, 2011, the value of the underlying stock collateral was \$14 million. The collectability of these notes is evaluated on an ongoing basis. At March 31, 2011 and 2010, we provided a reserve of approximately \$1 million and \$4 million for the outstanding notes.

We incurred \$11 million in 2011 and 2010 and \$10 million in 2009 of annual rental expense paid to an equity-held investment.

20. Segments of Business

We report our operations in two operating segments: McKesson Distribution Solutions and McKesson Technology Solutions. The factors for determining the reportable segments included the manner in which management evaluates the performance of the Company combined with the nature of the individual business activities. We evaluate the performance of our operating segments based on operating profit before interest expense, income taxes and results from discontinued operations.

The Distribution Solutions segment distributes ethical and proprietary drugs, medical-surgical supplies and equipment and health and beauty care products throughout North America. This segment also provides specialty pharmaceutical solutions for biotech and pharmaceutical manufacturers, sells financial, operational and clinical solutions for pharmacies (retail, hospital, alternate site) and provides consulting, outsourcing and other services. This segment includes a 49% interest in Nadro, S.A. de C.V. ("Nadro"), one of the leading pharmaceutical distributors in Mexico, and a 39% interest in Parata, which sells automated pharmacy and supply management systems and services to retail and institutional outpatient pharmacies.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The Technology Solutions segment delivers enterprise-wide clinical, patient care, financial, supply chain, strategic management software solutions, pharmacy automation for hospitals, as well as connectivity, outsourcing and other services, including remote hosting and managed services, to healthcare organizations. This segment also includes our Payer group of businesses, which includes our InterQual® clinical criteria solution, medical management tools, claims payment solutions and care management programs. The segment's customers include hospitals, physicians, homecare providers, retail pharmacies and payers from North America, the United Kingdom, Ireland, other European countries and Israel.

Revenues for our Technology Solutions segment are classified in one of three categories: services, software and software systems and hardware. Services revenues primarily include fees associated with installing our software and software systems, as well as revenues associated with software maintenance and support, remote processing, disease and medical management, and other outsourcing and professional services. Software and software systems revenues primarily include revenues from licensing our software and software systems, including the segment's clinical auditing and compliance and InterQual® businesses.

Corporate includes expenses associated with Corporate functions and projects, certain employee benefits and the results of certain equity-held investments. Corporate expenses are allocated to the operating segments to the extent that these items can be directly attributable to the segment.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Financial information relating to the reportable operating segments is presented below:

(In millions)	Years Ended March 31,		
	2011	2010	2009
Revenues			
Distribution Solutions ⁽¹⁾			
Direct distribution & services	\$ 77,554	\$ 72,210	\$ 66,876
Sales to customers' warehouses	18,631	21,435	25,809
Total U.S. pharmaceutical distribution & services	96,185	93,645	92,685
Canada pharmaceutical distribution & services	9,784	9,072	8,225
Medical-Surgical distribution & services	2,920	2,861	2,658
Total Distribution Solutions	108,889	105,578	103,568
Technology Solutions			
Services	2,483	2,439	2,337
Software & software systems	590	571	572
Hardware	122	114	155
Total Technology Solutions	3,195	3,124	3,064
Total	\$ 112,084	\$ 108,702	\$ 106,632
Operating profit			
Distribution Solutions ⁽²⁾	\$ 1,897	\$ 1,988	\$ 1,158
Technology Solutions ⁽³⁾	301	385	334
Total	2,198	2,373	1,492
Corporate	(341)	(342)	(284)
Litigation credit, net	—	20	—
Interest expense	(222)	(187)	(144)
Income from continuing operations before income taxes	\$ 1,635	\$ 1,864	\$ 1,064
Amortization of acquisition-related intangibles ⁽⁴⁾			
Distribution Solutions	\$ 70	\$ 54	\$ 51
Technology Solutions	62	67	77
Corporate	—	—	—
Total	\$ 132	\$ 121	\$ 128
Depreciation and other amortization ⁽⁵⁾			
Distribution Solutions	\$ 155	\$ 148	\$ 126
Technology Solutions	147	145	128
Corporate	62	63	59
Total	\$ 364	\$ 356	\$ 313
Expenditures for long-lived assets ⁽⁶⁾			
Distribution Solutions	\$ 162	\$ 95	\$ 83
Technology Solutions	26	31	43
Corporate	45	73	69
Total	\$ 233	\$ 199	\$ 195
Segment assets, at year end			
Distribution Solutions	\$ 22,983	\$ 19,803	\$ 18,674
Technology Solutions	3,504	3,635	3,606
Total	26,487	23,438	22,280
Corporate			
Cash and cash equivalents	3,612	3,731	2,109
Other	787	1,020	878
Total	\$ 30,886	\$ 28,189	\$ 25,267

(1) Revenues derived from services represent less than 1% of this segment's total revenues for 2011, 2010 and 2009.

(2) Operating profit for 2011 includes a \$213 million charge associated with the AWP litigation and also includes a \$51 million credit representing our share of a settlement of an antitrust class action lawsuit brought against a drug manufacturer, which was recorded as a reduction to cost of sales. Operating profit for 2009 includes a \$63 million charge to write-down two equity-held investments and a \$493 million charge associated with the AWP litigation.

(3) Operating profit in 2011 includes a \$72 million asset impairment charge for capitalized software held for sale.

(4) Amounts include amortization of acquired intangible assets purchased in connection with acquisitions by the Company.

(5) Other amortization includes amortization of capitalized software held for sale and capitalized software for internal use.

(6) Long-lived assets consist of property, plant and equipment.

McKESSON CORPORATION

FINANCIAL NOTES (Concluded)

Revenues and property, plant and equipment by geographic areas were as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2011	2010	2009
Revenues			
United States	\$ 102,089	\$ 99,387	\$ 98,194
International	9,995	9,315	8,438
Total	<u>\$ 112,084</u>	<u>\$ 108,702</u>	<u>\$ 106,632</u>
Property, plant and equipment, net, at year end			
United States	\$ 901	\$ 764	\$ 719
International	90	87	77
Total	<u>\$ 991</u>	<u>\$ 851</u>	<u>\$ 796</u>

International operations primarily consist of our operations in Canada, the United Kingdom, Ireland, other European countries and Israel. We also have an equity-held investment (Nadro) in Mexico. Net revenues were attributed to geographic areas based on the customers' shipment locations.

21. Quarterly Financial Information (Unaudited)

<i>(In millions, except per share amounts)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Fiscal 2011					
Revenues	\$ 27,450	\$ 27,534	\$ 28,247	\$ 28,853	\$ 112,084
Gross profit ⁽¹⁾	1,392	1,366	1,461	1,751	5,970
Net income ⁽¹⁾⁽²⁾	298	327	155	422	1,202
Earnings per common share ⁽¹⁾⁽²⁾					
Diluted					
Continuing operations	\$ 1.10	\$ 0.97	\$ 0.60	\$ 1.62	\$ 4.29
Discontinued operation ⁽³⁾	—	0.28	—	—	0.28
Total	<u>\$ 1.10</u>	<u>\$ 1.25</u>	<u>\$ 0.60</u>	<u>\$ 1.62</u>	<u>\$ 4.57</u>
Earnings per common share ⁽¹⁾⁽²⁾					
Basic					
Continuing operations	\$ 1.12	\$ 0.99	\$ 0.61	\$ 1.65	\$ 4.37
Discontinued operation ⁽³⁾	—	0.28	—	—	0.28
Total	<u>\$ 1.12</u>	<u>\$ 1.27</u>	<u>\$ 0.61</u>	<u>\$ 1.65</u>	<u>\$ 4.65</u>
Fiscal 2010					
Revenues	\$ 26,657	\$ 27,130	\$ 28,272	\$ 26,643	\$ 108,702
Gross profit	1,303	1,335	1,455	1,583	5,676
Net income ⁽⁴⁾	288	301	326	348	1,263
Earnings per common share ⁽⁴⁾					
Diluted	\$ 1.06	\$ 1.11	\$ 1.19	\$ 1.26	\$ 4.62
Basic	1.07	1.13	1.21	1.29	4.70

- (1) Financial results for the first quarter and full year of 2011 include a credit of \$51 million representing our share of a settlement of an antitrust class action lawsuit. Financial results for the second quarter and full year 2011 include a \$72 million asset impairment charge for capitalized software held for sale. Financial results of US Oncology are included in our consolidated financial statements beginning in the fourth quarter of 2011.
- (2) Financial results for the second and third quarters and full year 2011 include charges of \$24 million pre-tax (\$16 million after-tax), \$189 million pre-tax (\$133 million after-tax) and \$213 million pre-tax (\$149 million after-tax) associated with the AWP litigation.
- (3) Financial results for the second quarter and full year of 2011 include a \$95 million pre-tax (\$72 million after-tax) gain from the sale of MAP.
- (4) Financial results for the third quarter and full year 2010 include a \$17 million pre-tax gain (\$14 million after-tax) on sale of our 50% interest in MLS.

McKESSON CORPORATION

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our Chief Executive Officer and our Chief Financial Officer, with the participation of other members of the Company's management, have evaluated the effectiveness of the Company's "disclosure controls and procedures" (as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report, and have concluded that our disclosure controls and procedures are effective based on their evaluation of these controls and procedures as required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

Internal Control over Financial Reporting

Management's report on the Company's internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) and the related report of our independent registered public accounting firm are included on page 52 and page 53 of this Annual Report on Form 10-K, under the headings, "Management's Annual Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm" and are incorporated herein by reference.

Changes in Internal Controls

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Not applicable.

McKESSON CORPORATION

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information about our Directors is incorporated by reference from the discussion under Item 1 of our Proxy Statement for the 2011 Annual Meeting of Stockholders (the “Proxy Statement”) under the heading “Election of Directors.” Information about compliance with Section 16(a) of the Exchange Act is incorporated by reference from the discussion under the heading “Section 16(a) Beneficial Ownership Reporting Compliance” in our Proxy Statement. Information about our Audit Committee, including the members of the committee and our Audit Committee Financial Expert, is incorporated by reference from the discussion under the headings “Audit Committee Report” and “Audit Committee Financial Expert” in our Proxy Statement.

Information about the Code of Ethics governing our Chief Executive Officer, Chief Financial Officer, Controller and Financial Managers can be found on our Web site, www.mckesson.com, under the Investors – Corporate Governance tab. The Company’s Corporate Governance Guidelines and Charters for the Audit and Compensation Committees and the Committee on Directors and Corporate Governance can also be found on our Web site under the Investors – Corporate Governance tab.

The Company intends to disclose required information regarding any amendment to or waiver under the Code of Ethics referred to above by posting such information on our Web site within four business days after any such amendment or waiver.

Item 11. Executive Compensation

Information with respect to this item is incorporated by reference from the discussion under the heading “Executive Compensation” in our Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information about security ownership of certain beneficial owners and management is incorporated by reference from the discussion under the heading “Principal Stockholders” in our Proxy Statement.

McKESSON CORPORATION

The following table sets forth information as of March 31, 2011 with respect to the plans under which the Company's common stock is authorized for issuance:

<i>Plan Category (In millions, except per share amounts)</i>	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights ⁽¹⁾	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	13.0 ⁽²⁾	\$ 52.46	15.8 ⁽³⁾
Equity compensation plans not approved by security holders	1.7 ⁽⁴⁾	\$ 34.30	—

- (1) The weighted-average exercise price set forth in this column is calculated excluding outstanding restricted stock unit ("RSU") awards, since recipients are not required to pay an exercise price to receive the shares subject to these awards.
- (2) Represents options and RSUs awarded under the following plans: (i) 1994 Stock Option and Restricted Stock Plan; (ii) 1997 Non-Employee Directors' Equity Compensation and Deferral Plan; and (iii) the 2005 Stock Plan
- (3) Represents 2,378,455 shares that remained available for purchase under the 2000 Employee Stock Purchase Plan and 13,431,887 shares available for grant under the 2005 Stock Plan.
- (4) Represents options and RSUs awarded under the following plans: (i) 1999 Stock Option and Restricted Stock Plan; and (ii) the 1998 Canadian Stock Incentive Plan. No further awards will be made under any of these plans.

The following are descriptions of equity plans that have been approved by the Company's stockholders. The plans are administered by the Compensation Committee of the Board of Directors, except for the portion of the 2005 Stock Plan related to Non-Employee Directors, which is administered by the Committee on Directors and Corporate Governance.

2005 Stock Plan: The 2005 Stock Plan was adopted by the Board of Directors on May 25, 2005 and approved by the Company's stockholders on July 27, 2005. The 2005 Stock Plan permits the granting of up to 42.5 million shares in the form of stock options, restricted stock ("RS"), RSUs, performance-based restricted stock units ("PeRSUs") and other share-based awards. For any one share of common stock issued in connection with a RS, RSU, PeRSU or other share-based award, two shares shall be deducted from the shares available for future grants. Shares of common stock not issued or delivered as a result of the net exercise of a stock option, shares used to pay the withholding taxes related to a stock award or shares repurchased on the open market with proceeds from the exercise of options shall not be returned to the reserve of shares available for issuance under the 2005 Stock Plan.

Stock options are granted at no less than fair market value and those options granted under the 2005 Stock Plan generally have a contractual term of seven years. Prior to 2005, stock options typically had a contractual term of ten years. Options generally become exercisable in four equal annual installments beginning one year after the grant date or after four years from the date of grant. The vesting of RS or RSUs is determined by the Compensation Committee at the time of grant. RS and RSUs generally vest over four years. Vesting of PeRSUs ranges from one to three-year periods following the end of the performance period and may follow the graded or cliff method of vesting.

Non-employee directors may be granted an award on the date of each annual meeting of the stockholders for up to 5,000 RSUs, as determined by the Board. Such non-employee director award is fully vested on the date of the grant.

1997 Non-Employee Directors' Equity Compensation and Deferral Plan. The 1997 Non-Employee Directors' Equity Compensation and Deferral Plan was approved by the Company's stockholders on July 30, 1997; however, stockholder approval of the 2005 Stock Plan on July 27, 2005 had the effect of terminating the 1997 Non-Employee Directors' Equity Compensation and Deferral Plan such that no new awards would be granted under the 1997 Non-Employee Directors' Equity Compensation and Deferral Plan.

1994 Stock Option and Restricted Stock Plan. The 1994 Stock Option and Restricted Stock Plan expired by its terms on October 18, 2004, ten years after approval by the Board of Directors on October 19, 1994.

McKESSON CORPORATION

2000 Employee Stock Purchase Plan (the “ESPP”): The ESPP is intended to qualify as an “employee stock purchase plan” within the meaning of Section 423 of the Internal Revenue Code. In March 2002, the Board amended the ESPP to allow for participation in the plan by employees of certain of the Company’s international and certain other subsidiaries. As to those employees, the ESPP does not qualify under Section 423 of the Internal Revenue Code. Currently, 16 million shares have been approved by stockholders for issuance under the ESPP.

The ESPP is implemented through a continuous series of three-month purchase periods (“Purchase Periods”) during which contributions can be made toward the purchase of common stock under the plan.

Each eligible employee may elect to authorize regular payroll deductions during the next succeeding Purchase Period, the amount of which may not exceed 15% of a participant’s compensation. At the end of each Purchase Period, the funds withheld by each participant will be used to purchase shares of the Company’s common stock. The purchase price of each share of the Company’s common stock is based on 85% of the fair market value of each share on the last day of the applicable Purchase Period. In general, the maximum number of shares of common stock that may be purchased by a participant for each calendar year is determined by dividing \$25,000 by the fair market value of one share of common stock on the offering date.

The following are descriptions of equity plans that have not been submitted for approval by the Company’s stockholders:

On July 27, 2005, the Company’s stockholders approved the 2005 Stock Plan which had the effect of terminating the 1999 Stock Option and Restricted Stock Plan, the 1998 Canadian Stock Incentive Plan and certain 1999 one-time stock option plan awards, which plans had not been submitted for approval by the Company’s stockholders, and, as noted above, the 1997 Non-Employee Directors’ Equity Compensation and Deferral Plan, which had previously been approved by the Company’s stockholders. Prior grants under these plans include stock options, RS and RSUs. Stock options under the terminated plans generally have a ten-year life and vest over four years. RS contains certain restrictions on transferability and may not be transferred until such restrictions lapse. Each of these plans has outstanding equity grants, which are subject to the terms and conditions of their respective plans, but no new grants will be made under these terminated plans.

Item 13. Certain Relationships and Related Transactions and Director Independence

Information with respect to certain transactions with management is incorporated by reference from the Proxy Statement under the heading “Certain Relationships and Related Transactions.” Additional information regarding certain related party balances and transactions is included in the Financial Review section of this Annual Report on Form 10-K and Financial Note 19, “Related Party Balances and Transactions,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Item 14. Principal Accounting Fees and Services

Information regarding principal accounting fees and services is set forth under the heading “Ratification of Appointment of Deloitte & Touche LLP as the Company’s Independent Registered Public Accounting Firm for Fiscal 2012” in our Proxy Statement and all such information is incorporated herein by reference.

McKESSON CORPORATION**PART IV****Item 15. Exhibits and Financial Statement Schedule**

	<u>Page</u>
(a)(1) Consolidated Financial Statements.....	
Report of Deloitte & Touche, LLP, Independent Registered Public Accounting Firm	53
Consolidated Statements of Operations for the years ended March 31, 2011, 2010 and 2009	54
Consolidated Balance Sheets as of March 31, 2011 and 2010	55
Consolidated Statements of Stockholders' Equity for the years ended March 31, 2011, 2010 and 2009	56
Consolidated Statements of Cash Flows for the years ended March 31, 2011, 2010 and 2009	57
Financial Notes	58
(a)(2) Financial Statement Schedule	
Schedule II—Valuation and Qualifying Accounts	112
All other schedules not included have been omitted because of the absence of conditions under which they are required or because the required information, where material, is shown in the financial statements, financial notes or supplementary financial information.	
(a)(3) Exhibits submitted with this Annual Report on Form 10-K as filed with the SEC and those incorporated by reference to other filings are listed on the Exhibit Index.....	113

McKESSON CORPORATION

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

McKESSON CORPORATION

Dated: May 5, 2011

/s/ Jeffrey C. Campbell
Jeffrey C. Campbell
 Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated:

*

John H. Hammergren
 Chairman, President and Chief Executive Officer
 (Principal Executive Officer)

*

M. Christine Jacobs, Director

*

Jeffrey C. Campbell
 Executive Vice President and Chief Financial Officer
 (Principal Financial Officer)

*

Marie L. Knowles, Director

*

Nigel A. Rees
 Vice President and Controller
 (Principal Accounting Officer)

*

David M. Lawrence, M.D., Director

*

Andy D. Bryant, Director

*

Edward A. Mueller, Director

*

Wayne A. Budd, Director

*

Jane E. Shaw, Director

*

Alton F. Irby III, Director

*

/s/ Laureen E. Seeger
Laureen E. Seeger
 *Attorney-in-Fact

Dated: May 5, 2011

McKESSON CORPORATION

SCHEDULE II

SUPPLEMENTARY CONSOLIDATED FINANCIAL STATEMENT SCHEDULE
VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended March 31, 2011, 2010 and 2009
(In millions)

Description	Balance at Beginning of Year	Additions		Deductions From Allowance Accounts ⁽¹⁾	Balance at End of Year ⁽²⁾
		Charged to Costs and Expenses	Charged to Other Accounts ⁽³⁾		
Year Ended March 31, 2011					
Allowances for doubtful accounts	\$ 131	\$ 18	\$ 5	\$ (30)	\$ 124
Other allowances	24	—	(2)	(6)	16
	<u>\$ 155</u>	<u>\$ 18</u>	<u>\$ 3</u>	<u>\$ (36)</u>	<u>\$ 140</u>
Year Ended March 31, 2010					
Allowances for doubtful accounts	\$ 152	\$ 17	\$ 7	\$ (45)	\$ 131
Other allowances	12	6	10	(4)	24
	<u>\$ 164</u>	<u>\$ 23</u>	<u>\$ 17</u>	<u>\$ (49)</u>	<u>\$ 155</u>
Year Ended March 31, 2009					
Allowances for doubtful accounts	\$ 163	\$ 27	\$ 3	\$ (41)	\$ 152
Other allowances	9	6	1	(4)	12
	<u>\$ 172</u>	<u>\$ 33</u>	<u>\$ 4</u>	<u>\$ (45)</u>	<u>\$ 164</u>

	2011	2010	2009
(1) Deductions:			
Written off	\$ 36	\$ 49	\$ 27
Operation sold	—	—	6
Credited to other accounts	—	—	12
Total	<u>\$ 36</u>	<u>\$ 49</u>	<u>\$ 45</u>
(2) Amounts shown as deductions from current and non- current receivables	<u>\$ 140</u>	<u>\$ 155</u>	<u>\$ 164</u>
(3) Primarily represents reclassifications from other balance sheet accounts.			

McKESSON CORPORATION**EXHIBIT INDEX**

The agreements included as exhibits to this report are included to provide information regarding their terms and not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements may contain representations and warranties by each of the parties to the applicable agreement that were made solely for the benefit of the other parties to the applicable agreement, and;

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.

Exhibits identified under “Incorporated by Reference” in the table below are on file with the Commission and are incorporated by reference as exhibits hereto.

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation of the Company as filed with the Delaware Secretary of State on July 25, 2007.	10-Q	1-13252	3.1	October 31, 2007
3.2	Amended and Restated By-Laws of the Company, as amended through April 22, 2009.	8-K	1-13252	3.2	April 28, 2009
4.1	Indenture, dated as of March 11, 1997, by and between the Company, as Issuer, and The First National Bank of Chicago, as Trustee.	10-K	1-13252	4.4	June 19, 1997
4.2	Indenture, dated as of January 29, 2002, between the Company, as Issuer, and The Bank of New York, as Trustee.	10-K	1-13252	4.6	June 12, 2002
4.3	Indenture, dated as of March 5, 2007, by and between the Company, as Issuer, and The Bank of New York Trust Company, N.A., as Trustee.	8-K	1-13252	4.1	March 5, 2007
4.4	First Supplemental Indenture, dated as of February 28, 2011, to the Indenture, dated as of March 5, 2007, among the Company, as Issuer, The Bank of New York Mellon Trust Company, N.A. (formerly known as The Bank of New York Trust Company, N.A.), and Wells Fargo Bank, National Association, as Trustee.	8-K	1-13252	4.2	February 28, 2011
10.1*	McKesson Corporation 1994 Stock Option and Restricted Stock Plan as amended through July 31, 2001.	10-K	1-13252	10.4	June 12, 2002

McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
10.2*	McKesson Corporation 1999 Stock Option and Restricted Stock Plan, as amended through May 26, 2004.	10-K	1-13252	10.2	May 7, 2008
10.3*	McKesson Corporation 1997 Non-Employee Directors' Equity Compensation and Deferral Plan, as amended through January 29, 2003.	10-K	1-13252	10.4	June 10, 2004
10.4*	McKesson Corporation Supplemental Profit Sharing Investment Plan, as amended and restated on January 29, 2003.	10-K	1-13252	10.6	June 6, 2003
10.5*	McKesson Corporation Supplemental Profit Sharing Investment Plan II, as amended and restated on October 24, 2008.	10-Q	1-13252	10.1	October 29, 2008
10.6*	McKesson Corporation Deferred Compensation Administration Plan, as amended and restated as of October 28, 2004.	10-K	1-13252	10.6	May 13, 2005
10.7*	McKesson Corporation Deferred Compensation Administration Plan II, as amended and restated as of October 28, 2004, and Amendment No. 1 thereto effective July 25, 2007.	10-K	1-13252	10.7	May 7, 2008
10.8*	McKesson Corporation Deferred Compensation Administration Plan III, as amended and restated October 24, 2008.	10-Q	1-13252	10.2	October 29, 2008
10.9*	McKesson Corporation Option Gain Deferral Plan, as amended and restated as of October 28, 2004.	10-K	1-13252	10.8	May 13, 2005
10.10*	McKesson Corporation Executive Benefit Retirement Plan, as amended and restated on October 24, 2008.	10-Q	1-13252	10.3	October 29, 2008
10.11*	McKesson Corporation Executive Survivor Benefits Plan, as amended and restated as of January 20, 2010.	8-K	1-13252	10.1	January 25, 2010
10.12*	McKesson Corporation Severance Policy for Executive Employees, as amended and restated December 29, 2008.	10-K	1-13252	10.12	May 5, 2009
10.13*	McKesson Corporation Change in Control Policy for Selected Executive Employees, as amended and restated on October 26, 2010.	10-Q	1-13252	10.2	February 1, 2011
10.14*	McKesson Corporation 2005 Management Incentive Plan, as amended and restated on April 21, 2010, effective July 28, 2010.	10-Q	1-13252	10.3	July 30, 2010

McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
10.15*	Form of Statement of Terms and Conditions Applicable to Awards Pursuant to the McKesson Corporation 2005 Management Incentive Plan, effective April 20, 2010.	10-K	1-13252	10.15	May 4, 2010
10.16*	McKesson Corporation Long-Term Incentive Plan, as amended and restated effective May 26, 2010.	10-Q	1-13252	10.1	July 30, 2010
10.17*	Form of Statement and Terms and conditions Applicable to Awards Pursuant to the McKesson Corporation Long-Term Incentive Plan, made on or after May 26, 2009.	10-Q	1-13252	10.2	July 30, 2010
10.18*	McKesson Corporation 2005 Stock Plan, as amended and restated on July 28, 2010.	10-Q	1-13252	10.4	July 30, 2010
10.19*	Forms of (i) Statement of Standard Terms and Conditions applicable to Options, Restricted Stock, Restricted Stock Units and Performance Shares, (ii) Stock Option Grant Notice and (iii) Restricted Stock Unit Agreement, under the McKesson Corporation 2005 Stock Plan, as amended and restated on October 26, 2010.	10-Q	1-13252	10.1	February 1, 2011
10.20	Third Amended and Restated Receivables Purchase Agreement, dated as of May 19, 2010, among the Company, as servicer, CGSF Funding Corporation, as seller, the several conduit purchasers from time to time party to the Agreement, the several committed purchasers from time to time party to the Agreement, the several managing agents from time to time party to the Agreement, and JPMorgan Chase Bank, N.A., as collateral agent.	10-Q	1-13252	10.6	July 30, 2010

McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
10.21	Amended and Restated Credit Agreement, dated as of June 8, 2007 among the Company and McKesson Canada Corporation, collectively, the Borrowers, Bank of America, N.A., as Administrative Agent, Bank of America, N.A. (acting through its Canada branch), as Canadian Administrative Agent, JPMorgan Chase Bank and Wachovia Bank, National Association, as Co-Syndication Agents, Wachovia Bank, National Association, as L/C Issuer, The Bank of Nova Scotia and The Bank of Tokyo-Mitsubishi UFJ, LTD., Seattle branch, as Co-Documentation Agents, and The Other Lenders Party Hereto Banc of America Securities LLC, as sole lead arranger and sole book manager.	8-K	1-13252	10.1	June 14, 2007
10.22†††	Purchase Agreement, dated as of December 31, 2002, between McKesson Capital Corp. and General Electric Capital Corporation.	10-Q	1-13252	10.7	July 30, 2010
10.23†††	Services Agreement, dated as of December 31, 2002, between McKesson Capital Corp. and General Electric Capital Corporation.	10-Q	1-13252	10.8	July 30, 2010
10.24	Senior Bridge Term Loan Agreement, dated as of November 23, 2010, among The Company, Bank of America N.A., as Administrative Agent, and the Lenders party thereto.	8-K	1-13252	10.1	November 29, 2010
10.25*	Amended and Restated Employment Agreement, effective as of November 1, 2008, by and between the Company and its Chairman, President and Chief Executive Officer.	10-Q	1-13252	10.10	October 29, 2008
10.26*	Amended and Restated Employment Agreement, effective as of November 1, 2008, by and between the Company and its Executive Vice President and Group President.	10-Q	1-13252	10.12	October 29, 2008
10.27*	Form of Director and Officer Indemnification Agreement.	10-K	1-13252	10.27	May 4, 2010
12†	Computation of Ratio of Earnings to Fixed Charges.	—	—	—	—
21†	List of Subsidiaries of the Registrant.	—	—	—	—
23†	Consent of Independent Registered Public Accounting Firm, Deloitte & Touche LLP.	—	—	—	—

McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
24†	Power of Attorney.	—	—	—	—
31.1†	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, and adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	—	—	—	—
31.2†	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934 as amended, and adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	—	—	—	—
32††	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	—	—	—	—
101††	The following materials from the McKesson Corporation Annual Report on Form 10-K for the fiscal year ended March 31, 2011, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) related notes.	—	—	—	—

* Management contract or compensation plan or arrangement in which directors and/or executive officers are eligible to participate.

† Filed herewith.

†† Furnished herewith.

††† Confidential treatment has been granted for certain portions of this exhibit and such confidential portions have been filed with the Commission.

Registrant agrees to furnish to the Commission upon request a copy of each instrument defining the rights of security holders with respect to issues of long-term debt of the registrant, the authorized principal amount of which does not exceed 10% of the total assets of the registrant.

McKESSON CORPORATION

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

John H. Hammergren
Chairman, President and Chief Executive Officer,
McKesson Corporation

Andy D. Bryant
Executive Vice President and
Chief Administrative Officer,
Intel Corporation

Wayne A. Budd
Senior Counsel,
Goodwin Procter LLP

Alton F. Irby III
Chairman and Founding Partner,
London Bay Capital

M. Christine Jacobs
Chairman of the Board, President and
Chief Executive Officer,
Theragenics Corporation

Marie L. Knowles
Executive Vice President and
Chief Financial Officer, Retired,
Atlantic Richfield Company

David M. Lawrence, M.D.
Chairman of the Board and
Chief Executive Officer, Retired,
Kaiser Foundation Health Plan, Inc. and
Kaiser Foundation Hospitals

Edward A. Mueller
Chairman of the Board and
Chief Executive Officer, Retired,
Qwest Communications International Inc.

Jane E. Shaw, Ph.D.
Chairman of the Board, Intel Corporation;
Chairman of the Board and
Chief Executive Officer, Retired,
Aerogen, Inc.

CORPORATE OFFICERS

John H. Hammergren
Chairman, President and Chief Executive Officer

Patrick J. Blake
Executive Vice President and Group President

Jeffrey C. Campbell
Executive Vice President and Chief Financial Officer

Jorge L. Figueredo
Executive Vice President, Human Resources

Paul C. Julian
Executive Vice President and Group President

Marc E. Owen
Executive Vice President, Corporate Strategy and
Business Development

Laureen E. Seeger
Executive Vice President, General Counsel and
Chief Compliance Officer

Randall N. Spratt
Executive Vice President, Chief Technology Officer
and Chief Information Officer

Nicholas A. Loiacono
Vice President and Treasurer

Nigel A. Rees
Vice President and Controller

Willie C. Bogan
Secretary

McKESSON CORPORATION

CORPORATE INFORMATION

Common Stock

McKesson Corporation common stock is listed on the New York Stock Exchange (ticker symbol MCK) and is quoted in the daily stock tables carried by most newspapers.

Stockholder Information

Wells Fargo Shareowner Services, 161 Concord Exchange North, South St. Paul, MN 55075 acts as transfer agent, registrar, dividend-paying agent and dividend reinvestment plan agent for McKesson Corporation stock and maintains all registered stockholder records for the Company. For information about McKesson Corporation stock or to request replacement of lost dividend checks, stock certificates, 1099-DIVs, or to have your dividend check deposited directly into your checking or savings account, stockholders may call Wells Fargo Shareowner Services' telephone response center at (866) 614-9635. For the hearing impaired call (651) 450-4144. Wells Fargo Shareowner Services also has a Web site: <http://www.wellsfargo.com/shareownerservices> – that stockholders may use 24 hours a day to request account information.

Dividends and Dividend Reinvestment Plan

Dividends are generally paid on the first business day of January, April, July and October. McKesson Corporation's Dividend Reinvestment Plan offers stockholders the opportunity to reinvest dividends in common stock and to purchase additional shares of common stock. Stock in an individual's Dividend Reinvestment Plan is held in book entry at the Company's transfer agent, Wells Fargo Shareowner Services. For more information, or to request an enrollment form, call Wells Fargo Shareowner Services' telephone response center at (866) 614-9635. From outside the United States, call +1-651-450-4064.

Annual Meeting

McKesson Corporation's Annual Meeting of Stockholders will be held at 8:30 a.m. PDT, on Wednesday, July 27, 2011 at the Palace Hotel, Sea Cliff Room, 2 New Montgomery Street, San Francisco, California.

Exhibit 31.1

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John H. Hammergren, certify that:

1. I have reviewed this annual report on Form 10-K of McKesson Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2011

/s/ John H. Hammergren
John H. Hammergren
 Chairman, President and Chief Executive Officer

Exhibit 31.2

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeffrey C. Campbell, certify that:

1. I have reviewed this annual report on Form 10-K of McKesson Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2011

/s/ Jeffrey C. Campbell
Jeffrey C. Campbell
Executive Vice President and Chief Financial Officer

Exhibit 32

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of McKesson Corporation (the "Company") on Form 10-K for the year ended March 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the dates indicated below, each hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of their knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John H. Hammergren
John H. Hammergren
Chairman, President and Chief Executive Officer
May 5, 2011

/s/ Jeffrey C. Campbell
Jeffrey C. Campbell
Executive Vice President and Chief Financial Officer
May 5, 2011

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002, and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to McKesson Corporation and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

TRIAL EXHIBIT 94

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

**Commission File Number 1-13252
McKESSON CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware

94-3207296

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

One Post Street, San Francisco, California
(Address of principal executive offices)

94104
(Zip Code)

(415) 983-8300

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

(Title of each class)

(Name of each exchange on which registered)

Common Stock, \$0.01 par value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

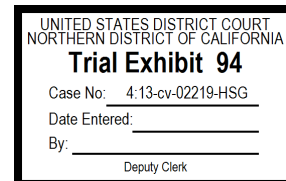
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, September 30, 2011, was approximately \$17.8 billion.

Number of shares of common stock outstanding on April 16, 2012: 235,397,188

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2012 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.



McKESSON CORPORATION

TABLE OF CONTENTS

<u>Item</u>	<u>Page</u>
PART I	
1. Business.....	3
1A. Risk Factors.....	11
1B. Unresolved Staff Comments	22
2. Properties.....	22
3. Legal Proceedings	22
4. Mine Safety Disclosures.....	22
Executive Officers of the Registrant	23
PART II	
5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.....	24
6. Selected Financial Data	27
7. Management's Discussion and Analysis of Financial Condition and Results of Operations	28
7A. Quantitative and Qualitative Disclosures About Market Risk.....	50
8. Financial Statements and Supplementary Data	51
9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	105
9A. Controls and Procedures.....	105
9B. Other Information.....	105
PART III	
10. Directors, Executive Officers and Corporate Governance	106
11. Executive Compensation.....	106
12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.....	106
13. Certain Relationships and Related Transactions and Director Independence	108
14. Principal Accounting Fees and Services	108
PART IV	
15. Exhibits and Financial Statement Schedule.....	109
Signatures	110

McKESSON CORPORATION

PART I

Item 1. Business.

General

McKesson Corporation (“McKesson,” the “Company,” the “Registrant” or “we” and other similar pronouns), is a Fortune 15 corporation that delivers pharmaceuticals, medical supplies and health care information technologies that make health care safer while reducing costs.

The Company’s fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references in this document to a particular year shall mean the Company’s fiscal year.

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act,”) are available free of charge on our website (www.mckesson.com under the “Investors – Financial Information – SEC Filings” caption) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (“SEC” or the “Commission”). The content on any website referred to in this Annual Report on Form 10-K is not incorporated by reference into this report, unless expressly noted otherwise.

The public may also read or copy any materials that we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers, including the Company, that file electronically with the SEC. The address of the website is <http://www.sec.gov>.

Business Segments

We operate in two segments. The McKesson Distribution Solutions segment distributes ethical and proprietary drugs, medical-surgical supplies and equipment and health and beauty care products throughout North America. This segment also provides specialty pharmaceutical solutions for biotech and pharmaceutical manufacturers, and practice management, technology, clinical support and business solutions to oncology and other specialty practices operating in the community setting. In addition, this segment sells financial, operational and clinical solutions for pharmacies (retail, hospital, alternate site) and provides consulting, outsourcing and other services. This segment includes a 49% interest in Nadro, S.A. de C.V. (“Nadro”), one of the leading pharmaceutical distributors in Mexico.

The McKesson Technology Solutions segment delivers enterprise-wide clinical, patient care, financial, supply chain, strategic management software solutions, pharmacy automation for hospitals, as well as connectivity, outsourcing and other services, including remote hosting and managed services, to healthcare organizations. This segment also includes our Payer group of businesses, which includes our InterQual® clinical criteria solution, medical management tools, claims payment solutions, network performance tools and care management programs. This segment’s customers include hospitals, physicians, homecare providers, retail pharmacies and payers from North America, the United Kingdom, Ireland, other European countries and Israel.

Net revenues for our segments for the last three years were as follows:

<i>(Dollars in billions)</i>	2012		2011		2010	
Distribution Solutions	\$ 119.4	97%	\$ 108.9	97%	\$ 105.6	97%
Technology Solutions	3.3	3%	3.2	3%	3.1	3%
Total	\$ 122.7	100%	\$ 112.1	100%	\$ 108.7	100%

McKESSON CORPORATION*Distribution Solutions*

McKesson Distribution Solutions consists of the following businesses: U.S. Pharmaceutical Distribution, McKesson Canada, Medical-Surgical Distribution, McKesson Pharmacy Systems and Automation and McKesson Specialty Health. This segment also includes our 49% interest in Nadro.

U.S. Pharmaceutical Distribution: This business supplies pharmaceuticals and/or other healthcare-related products to customers in three primary customer channels: (1) retail national accounts (including national and regional chains, food/drug combinations, mail order pharmacies and mass merchandisers); (2) independent retail pharmacies; and (3) institutional healthcare providers (including hospitals, health systems, integrated delivery networks, clinics and alternate site providers). This business also provides solutions and services to pharmaceutical manufacturers. This business sources materials and products from a wide-array of different suppliers, including the production of certain generic pharmaceutical drugs through a contract-manufacturing program.

Our U.S. pharmaceutical distribution business operates and serves thousands of customer locations through a network of 28 distribution centers, as well as a primary redistribution center, a strategic redistribution center and two repackaging facilities, serving all 50 states and Puerto Rico. We invest in technology and other systems at all of our distribution centers to enhance safety and reliability and provide the best product availability for our customers. For example, in all of our distribution centers we use Acumax® Plus, an award-winning technology that integrates and tracks all internal inventory-related functions such as receiving, put-away and order fulfillment. Acumax® Plus uses bar code technology, wrist-mounted computer hardware and radio frequency signals to provide customers with real-time product availability and industry-leading order quality and fulfillment in excess of 99.9% adjusted accuracy. In addition, we offer Mobile ManagerSM, which integrates portable handheld technology with Acumax® Plus to give customers complete ordering and inventory control. We also offer McKesson ConnectSM, an Internet-based ordering system that provides item lookup and real-time inventory availability as well as ordering, purchasing, third-party reconciliation and account management functionality. Together, these features help ensure customers have the right products at the right time for their facilities and patients.

To maximize distribution efficiency and effectiveness, we follow the Six Sigma methodology — an analytical approach that emphasizes setting high-quality objectives, collecting data and analyzing results to a fine degree in order to improve processes, reduce costs and minimize errors. We continue to implement information systems to help achieve greater consistency and accuracy both internally and for our customers.

The major offerings of the McKesson U.S. Pharmaceutical Distribution business by customer group can be categorized as retail national accounts, independent retail pharmacies and institutional healthcare providers.

Retail National Accounts — Business solutions that help national account customers increase revenues and profitability. Solutions include:

- Central FillSM — Prescription refill service that enables pharmacies to more quickly refill prescriptions remotely, more accurately and at a lower cost, while reducing inventory levels and improving customer service.
- Redistribution Centers — Two facilities totaling over 500 thousand square feet that offer access to inventory for single source warehouse purchasing, including pharmaceuticals and biologicals. These distribution centers also provide the foundation for a two-tiered distribution network that supports best-in-class direct store delivery.
- EnterpriseRx® — A Software as a Service (SaaS) pharmacy management system, that allows large retail chain, health system, and retail independent pharmacies to meet demand for prescriptions while maximizing profits and optimizing operations.
- RxPakSM — Bulk-to-bottle repackaging service that leverages our purchasing scale and supplier relationships to provide pharmaceuticals at reduced prices, help increase inventory turns and reduce working capital investment.
- Inventory Management — An integrated solution comprising forecasting software and automated replenishment technologies that reduce inventory-carrying costs.
- McKesson OneStop Generics® — Generic pharmaceutical purchasing program that helps pharmacies maximize their cost savings with a broad selection of generic drugs, low pricing and one-stop shopping.

McKESSON CORPORATION

Independent Retail Pharmacies — Solutions for managed care contracting, branding and advertising, merchandising, purchasing, operational efficiency and automation that help independent pharmacists focus on patient care while improving profitability. Solutions include:

- Health Mart® — Health Mart® is a national network of more than 2,900 independently-owned pharmacies and is one of the industry's most comprehensive pharmacy franchise programs. Health Mart® provides franchisees with managed care that drives pharmacy benefit manager recognition, branding that drives consumer recognition along with its Health Mart private label line of products, in-store programs that drive manufacturer and payer recognition and community advocacy programs that drive industry recognition. Health Mart® helps franchisees grow their businesses by focusing on the three principles of successful retailing:
 - Attract new customers;
 - Maximize the value of current customers; and
 - Enhance business efficiency.
- AccessHealth® — Comprehensive managed care and reconciliation assistance services that help independent pharmacies save time, access competitive reimbursement rates and improve cash flow.
- McKesson Reimbursement AdvantageSM (“MRA”) — MRA is one of the industry's most comprehensive reimbursement optimization packages, comprising financial services (automated claim resubmission), analytic services and customer care.
- McKesson OneStop Generics® — described above.
- EnterpriseRx® — described above.
- Sunmark® — Complete line of more than 700 products that provide retail independent pharmacies with value-priced alternatives to national brands.
- FrontEdgeTM — Strategic planning, merchandising and price maintenance program that helps independent pharmacies maximize store profitability.
- McKesson Home Health Care — Comprehensive line of more than 1,800 home health care products, including durable medical equipment, diabetes supplies, self-care supplies and disposables from national brands and the Sunmark® line.

Institutional Healthcare Providers — Electronic ordering/purchasing and supply chain management systems that help customers improve financial performance, increase operational efficiencies and deliver better patient care. Solutions include:

- McKesson Pharmacy Optimization® — An experienced group of pharmacy professionals providing consulting services and pharmacy practice resources. McKesson Pharmacy Optimization® develops customized and quantifiable solutions that help hospitals create and sustain financial, operational and clinical results.
- Fulfill-RxSM — Ordering and inventory management system that integrates McKesson pharmaceutical distribution services with our automation solutions, thus empowering hospitals to optimize the often complicated and disjointed processes related to unit-based cabinet replenishment and inventory management.
- Asset Management — Award-winning inventory optimization and purchasing management program that helps institutional providers lower costs while ensuring product availability.
- SKY Packaging — Blister-format packaging containing the most widely prescribed dosages and strengths in generic oral-solid medications. SKY Packaging enables acute care, long-term care and institutional pharmacies to provide cost-effective, uniform packaging.
- McKesson OneStop Generics® — Generic pharmaceutical purchasing program that enables acute care and alternate site pharmacies to capture the full potential of purchasing generic pharmaceuticals.
- McKesson 340B Solution Suite — Solutions that help providers manage, track and report on medication replenishment associated with the federal 340B Drug Pricing Program.
- High Performance Pharmacy® — Framework that identifies and categorizes hospital pharmacy best practices to help improve clinical outcomes and financial results. The High Performance Pharmacy Assessment Tool enables hospital pharmacies to measure against comparable institutions and chart a step-by-step path to high performance.

McKESON CORPORATION

McKesson Canada: McKesson Canada, a wholly-owned subsidiary, is one of the largest pharmaceutical distributors in Canada. McKesson Canada, through its network of 16 distribution centers, provides logistics and distribution to more than 800 manufacturers – delivering their products to retail pharmacies, hospitals, long-term care centers, clinics and institutions throughout Canada. Beyond pharmaceutical distribution, logistics and order fulfillment, McKesson Canada has automated over 2,500 retail pharmacies and is also active in hospital automation solutions, dispensing more than 100 million doses each year. In partnership with other McKesson businesses, McKesson Canada provides a full range of services to Canadian manufacturers and healthcare providers, contributing to the quality and safety of care for patients. On March 25, 2012, we acquired substantially all of the assets of Drug Trading Company Limited, the independent banner business of the Katz Group Canada Inc. (“Katz Group”), and Medicine Shoppe Canada Inc., the franchise business of the Katz Group. The acquisition of the assets from the Drug Trading Company Limited consists of a marketing and purchasing arm of more than 850 independently owned pharmacies in Canada. The acquisition of Medicine Shoppe Canada Inc. consists of the franchise business of providing services to more than 160 independent pharmacies in Canada.

Medical–Surgical Distribution: This business provides medical-surgical supply distribution, equipment, logistics and other services to healthcare providers including physicians’ offices, surgery centers, extended care facilities, homecare and occupational health sites through a network of 28 distribution centers within the U.S. This business is a leading provider of supplies to the full range of alternate-site healthcare facilities, including physicians’ offices, clinics and surgery centers (primary care), long-term care, occupational health facilities and homecare sites (extended care). Through a variety of technology products and services geared towards the supply chain, our Medical-Surgical Distribution business is focused on helping its customers operate more efficiently while providing one of the industry’s most extensive product offerings, including our own private label line. This business also includes ZEE® Medical, one of the most extensive product offerings in the industry of first aid, safety and training solutions, providing services to industrial and commercial customers. This business offers an extensive line of products and services aimed at maximizing productivity and minimizing the liability and cost associated with workplace illnesses and injuries.

McKesson Pharmacy Systems and Automation: This business supplies integrated pharmacy management systems, automated dispensing systems and related services to retail, outpatient, central fill, specialty and mail order pharmacies. Its primary offering is EnterpriseRx®, a Software as a Service (SaaS) pharmacy management system, that allows large retail chain, health system, and retail independent pharmacies to meet demand for prescriptions while maximizing profits and optimizing operations. We also own a 39% interest in Parata, which sells automated pharmacy and supply management systems and services to retail and institutional pharmacies.

McKesson Specialty Health: This business provides solutions for oncology and other specialty practices operating in communities across the country, as well as for pharmaceutical and biotech suppliers who manufacture specialty drugs and vaccines. Through expertise in specialty drug distribution, commercialization, revenue cycle and practice management and reimbursement support, McKesson Specialty Health allows the community patient care delivery system and facilitates collaboration among community healthcare providers, drug manufacturers and payers. We provide direct-to-physician specialty distribution services, ensuring supply chain safety and delivery of specialty drugs in manufacturer recommended conditions. Third party logistics, or 3PL, are offered primarily for vaccine distribution, including our exclusive distributor relationship in the Center for Disease Control and Prevention’s (CDC) Vaccines for Children program. We also offer our industry leading Lynx® integrated technologies, the iKnowMedSM Electronic Health record, and clinical and practice management tools, all of which help community practices improve inventory management, practice workflow and reimbursement processes, as well as deliver business efficiencies and clinical-decision support. McKesson Specialty Health works with manufacturers across all phases of the product development and commercialization lifecycle, including clinical research, to optimize delivery of complex medication to patients. Through custom distribution and safety programs, we help support appropriate product utilization, as well as the development and management of Risk Evaluation Mitigation Strategies (“REMS”), reimbursement, healthcare informatics and patient access programs, and to enable manufacturers to deliver cost effective patient access to needed therapies. McKesson Specialty Health supports The US Oncology Network and US Oncology Research. The US Oncology Network unites one of the largest network of community oncologists in the United States, and through collaboration and shared purpose, provides the clinical, research, technology and business resources to ensure the growth and vitality of these independent, community-based oncology practices. US Oncology Research is one of the nation’s largest research networks, specializing in Phase I – Phase IV oncology clinical trials.

McKESSON CORPORATION

Technology Solutions

Our Technology Solutions segment provides a comprehensive portfolio of software, automation, support and services to help healthcare organizations improve quality and patient safety, reduce the cost and variability of care and better manage their resources and revenue stream. This segment also includes our InterQual® clinical criteria solution, medical management tools, claims payment solutions, network performance tools and care management programs. Technology Solutions markets its products and services to integrated delivery networks, hospitals, physician practices, home healthcare providers, retail pharmacies and payers. Our solutions and services are sold internationally through subsidiaries and/or distribution agreements in Canada, United Kingdom, Ireland, other European countries and Israel.

The product portfolio for the Technology Solutions segment is designed to address a wide array of healthcare clinical and business performance needs ranging from medication safety and information access to revenue cycle management, resource utilization and physician adoption of electronic health records (“EHR”). Analytics software enables organizations to measure progress as they automate care processes for optimal clinical outcomes, business and operating results and regulatory compliance. To ensure that organizations achieve the maximum value for their information technology investment, we also offer a wide range of services to support the implementation and use of solutions as well as assist with business and clinical redesign, process re-engineering and staffing (both information technology and back-office).

Key solution areas are as follows:

Clinical and financial management: We provide comprehensive clinical and financial information systems for hospitals and health systems of all sizes. These systems are designed to improve the safety and quality of patient care and improve clinical, financial and operational performance. Clinical functionality includes a data repository, care planning, physician order entry and documentation, nursing documentation with bar-coded medication administration, laboratory, radiology, pharmacy, surgical management, emergency department and ambulatory EHR systems, a Web-based physician portal and a comprehensive solution for homecare. Revenue management solutions are designed to improve financial performance by reducing days in accounts receivable, preventing insurance claim denials, reducing costs and improving productivity. Solutions include online patient billing, contract management, electronic claims processing and coding compliance checking. These solutions streamline patient access and help organizations to forecast financial responsibility for constituents before and during care, allowing providers to collect their reimbursements more quickly and at a lower cost.

Enterprise imaging: In addition to document imaging to facilitate maintenance and access to complete medical records, we offer medical imaging and information management systems for healthcare enterprises, including a picture archiving communications system, a radiology information system and a comprehensive cardiovascular information system. Our enterprise-wide approach to medical imaging enables organizations to take advantage of specialty-specific workstations while building an integrated image repository that manages all of the images and information captured throughout the care continuum.

Performance management: Performance management solutions are designed to enhance an organization’s ability to plan and optimize quality care delivery. Enterprise visibility and performance analytics provide business intelligence that enables providers to manage capacity, outcomes, productivity and patient flow. Workforce management solutions assist caregivers with staffing and maintaining labor rule continuity between scheduling, time and attendance and payroll. A comprehensive supply chain management solution integrates enterprise resource planning applications, including financials, materials, human resources/payroll, with scheduling, point of use, surgical and anesthesia services and enterprise-wide analytics.

Automation: Automation solutions include technologies that help hospitals re-engineer and improve their medication use processes. Examples include centralized pharmacy automation for dispensing unit-dose medications, unit-based cabinet technologies for secure medication storage and rapid retrieval and an anesthesia cart for dispensing of medications in the operating room. Based on a foundation of bar-code scanning technology, these integrated solutions are designed to reduce errors and bring new levels of safety to patients.

McKESSON CORPORATION

Physician practice solutions: We provide a complete solution for physician practices of all sizes that includes software, revenue cycle outsourcing and connectivity services. Software solutions include practice management and EHR software for physicians of every size and specialty. Our physician practice offering also includes outsourced billing and collection services as well as services that connect physicians with their patients, hospitals, retail pharmacies and payers. Revenue cycle outsourcing enables physician groups to avoid the infrastructure investment and administrative costs of an in-house billing office. Services include clinical data collection, data input, medical coding, billing, contract management, cash collections, accounts receivable management and extensive reporting of metrics related to the physician practice.

Connectivity: Through our vendor-neutral RelayHealth® and its intelligent network, the Company provides health information exchange and revenue cycle management solutions that streamline clinical, financial and administrative communication between patients, providers, payers, pharmacies, manufacturers, government and financial institutions. RelayHealth® helps to accelerate the delivery of high-quality care and improve financial performance through online consultation of physicians by patients, electronic prescribing by physicians, point-of-service resolution of pharmacy claims by payers, pre-visit financial clearance of patients by providers and post-visit settlement of provider bills by payers and patients. RelayHealth® securely processes more than 16 billion financial and clinical transactions annually.

In addition to the product offerings described above, Technology Solutions offers a comprehensive range of services to help organizations derive greater value, enhance satisfaction and return on investment throughout the life of the solutions implemented. The range of services includes:

Technology Services: Technology services supports the smooth operation of numerous organizations' information systems by providing the technical infrastructure designed to maximize application accessibility, availability, security and performance.

Outsourcing Services: With these services, we help providers focus their resources on delivering healthcare while managing their revenue cycle operations and information technology through a comprehensive suite of managed services. Services include full and partial revenue cycle outsourcing, remote hosting, managing hospital data processing operations, payroll processing, and business office administration.

Professional Services: Professional services help customers achieve business results from their software or automation investment. A wide array of service options is available, including consulting for business and/or clinical process improvement and re-design as well as implementation, project management, technical and education services relating to all products in the Technology Solutions segment.

Payer Group: The following suite of services and software products is marketed to payers, hospitals and government organizations to help manage the cost and quality of care:

- InterQual® Criteria for clinical decision support and utilization management;
- Claims payment solutions to facilitate accurate and efficient medical claim payments;
- Business intelligence tools for measuring, reporting and improving clinical and financial performance;
- Network management tools enable health plans to transform the performance of their networks;
- Disease management programs to improve the health status and health outcomes of patients with chronic conditions;
- Nurse advice services to provide health information and recommend appropriate levels of care; and
- Clinical and analytical software to support utilization, case and disease management workflows.

Business Combinations and Discontinued Operation

We have undertaken strategic initiatives in recent years designed to further focus on our core healthcare businesses and enhance our competitive position. We expect to continue to undertake such strategic initiatives in the future. These initiatives are detailed in Financial Notes 2 and 7, "Business Combinations" and "Discontinued Operation," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

McKESSON CORPORATION**Competition**

In every area of healthcare distribution operations, our Distribution Solutions segment faces strong competition, both in price and service, from national, regional and local full-line, short-line and specialty wholesalers, service merchandisers, self-warehousing chains, manufacturers engaged in direct distribution, third-party logistics companies and large payer organizations. In addition, this segment faces competition from various other service providers and from pharmaceutical and other healthcare manufacturers as well as other potential customers of the segment, which may from time-to-time decide to develop, for their own internal needs, supply management capabilities that would otherwise be provided by the segment. Price, quality of service, innovation and, in some cases, convenience to the customer are generally the principal competitive elements in this segment.

Our Technology Solutions segment experiences substantial competition from many firms, including other software services firms, consulting firms, shared service vendors, certain hospitals and hospital groups, payers, care management organizations, hardware vendors and internet-based companies with technology applicable to the healthcare industry. Competition varies in size from small to large companies, in geographical coverage and in scope and breadth of products and services offered.

Intellectual Property

The principal trademarks and service marks of our Distribution Solutions segment include: AccessHealth®, AccessMED®, Acumax®, Advancing Cancer Care in America®, Business of PharmacySM, BoP®, CaresRxSM, Central FillSM, Closed Loop DistributionSM, Comprehensive Strategic Alliance (CSA)SM, CypressSM, Cypress Plus®, Edwards Medical Supply®, Empowering Healthcare®, EnterpriseRx®, Expect More From MooreSM, FrontEdgeTM, Fulfill-RxSM, Heal Living Well After Cancer®, Health Mart®, Heart Profilers & Design®, High Performance Pharmacy®, IknowchartTM, iKnowMedSM, Innovent®, LoyaltyScript®, Lynx®, Market FocusSM, Max Impact®, McKesson®, McKesson AdvantageSM, McKesson ConnectSM, McKesson Empowering Healthcare®, McKesson High Volume SolutionsSM, McKesson Max Rewards®, McKesson OneStop Generics®, McKesson Pharmacy CentralSM, McKesson Pharmacy Optimization®, McKesson Priority Express OTCSM, McKesson Reimbursement AdvantageSM, McKesson Supply ManagerSM, MediNetTM, Medi-Pak®, Mobile ManagerSM, Moore Medical®, Moorebrand®, Nexcura®, Northstarx®, Oncology TodaySM, Oncology Today Translating Knowledge Into Cancer Care®, OncologyRx Care Advantage®, Onmark®, OTN®, Pharma360®, PharmacyRxTM, Pharmaserv®, RadmapTM, Research & Education®, RX PakSM, RxOwnership®, Selectplus Oncology®, ServiceFirstSM, Staydry®, Sterling Medical Services®, Sunmark®, Supply Management OnlineSM, The Supply Experts®, The US Oncology NetworkSM, TrialScript®, Triangle Design®, United We WinSM, US Cancer AllianceSM, US Oncology®, Valu-Rite®, XVIII B Medi Mart®, Zee Medical Service®, and ZEE®.

The substantial majority of technical concepts and codes embodied in our Technology Solutions segment's computer programs and program documentation are protected as trade secrets. The principal trademarks and service marks for this segment are: AcuDose-Rx®, ANSOS One-StaffTM, Ask-A-Nurse®, Care Fully ConnectedTM, CareEnhance®, Connect-RNTM, Connect-Rx®, CRMSTM, DataStat®, ePremis®, Episode ProfilerTM, E-ScriptTM, Fulfill-RxSM, HealthQuestTM, Horizon Admin-RxTM, Horizon Clinicals®, Horizon Enterprise Revenue ManagementTM, HorizonWP®, InterQual®, Lytec®, MedCarousel®, Medisoft®, ORSOS One-CallTM, PACMEDTM, PakPlus-RxTM, Paragon®, Pathways 2000®, Patterns ProfilerTM, Per-SeTM, Per-Se Technologies®, PerYourHealth.com®, Practice Partner®, Premis®, ProIntercept®, ProMed®, ProPBM®, RelayHealth®, ROBOT-Rx®, SelfPace®, Series 2000TM, STAR 2000TM, SupplyScanTM, TRENDSTAR® and WebVisitTM.

We also own other registered and unregistered trademarks and service marks and similar rights used by our business segments. Many of the principal trademarks and service marks are registered in the United States, or registrations have been applied for with respect to such marks, in addition to certain other jurisdictions. The United States federal registrations of these trademarks have terms of ten or twenty years, depending on date of registration, and are subject to unlimited renewals. We believe that we have taken all necessary steps to preserve the registration and duration of our trademarks and service marks, although no assurance can be given that we will be able to successfully enforce or protect our rights thereunder in the event that they are subject to third-party infringement claims. We do not consider any particular patent, license, franchise or concession to be material to our business. We also hold copyrights in, and patents related to, many of our products.

McKESSON CORPORATION

Other Information about the Business

Customers: During 2012, sales to our ten largest customers accounted for approximately 52% of our total consolidated revenues. Sales to our two largest customers, CVS Caremark Corporation (“CVS”) and Rite Aid Corporation (“Rite Aid”), accounted for approximately 16% and 10% of our total consolidated revenues. At March 31, 2012, accounts receivable from our ten largest customers were approximately 49% of total accounts receivable. Accounts receivable from CVS, Wal-Mart Stores, Inc. (“Walmart”) and Rite Aid were approximately 17%, 10% and 9% of total accounts receivable. We also have agreements with group purchasing organizations (“GPOs”), each of which functions as a purchasing agent on behalf of member hospitals, pharmacies and other healthcare providers. The accounts receivables balances are with individual members of the GPOs. Substantially all of these revenues and accounts receivable are included in our Distribution Solutions segment.

Suppliers: We obtain pharmaceutical and other products from manufacturers, none of which accounted for more than approximately 6% of our purchases in 2012. The loss of a supplier could adversely affect our business if alternate sources of supply are unavailable. We believe that our relationships with our suppliers, on the whole, are good. The ten largest suppliers in 2012 accounted for approximately 45% of our purchases.

A significant portion of our distribution arrangements with the manufacturers provides us compensation based on a percentage of our purchases. In addition, we have certain distribution arrangements with pharmaceutical manufacturers that include an inflation-based compensation component whereby we benefit when the manufacturers increase their prices as we sell our existing inventory at the new higher prices. For these manufacturers, a reduction in the frequency and magnitude of price increases, as well as restrictions in the amount of inventory available to us, could have a material adverse impact on our gross profit margin.

Research and Development: Our development expenditures primarily consist of our investment in software held for sale. We spent \$487 million, \$471 million and \$451 million for development activities in 2012, 2011 and 2010 and of these amounts, we capitalized 10%, 14% and 17%. Development expenditures are primarily incurred by our Technology Solutions segment. Our Technology Solutions segment’s product development efforts apply computer technology and installation methodologies to specific information processing needs of hospitals and other customers. We believe that a substantial and sustained commitment to such expenditures is important to the long-term success of this business. Additional information regarding our development activities is included in Financial Note 1, “Significant Accounting Policies,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Environmental Regulation: Our operations are subject to regulations under various federal, state, local and foreign laws concerning the environment, including laws addressing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. We could incur substantial costs, including cleanup costs, fines and civil or criminal sanctions and third-party damage or personal injury claims, if in the future we were to violate or become liable under environmental laws.

We are committed to maintaining compliance with all environmental laws applicable to our operations, products and services and to reducing our environmental impact across all aspects of our business. We meet this commitment through an environmental strategy and sustainability program.

We sold our chemical distribution operations in 1987 and retained responsibility for certain environmental obligations. Agreements with the Environmental Protection Agency and certain states may require environmental assessments and cleanups at several closed sites. These matters are described further in Financial Note 19, “Other Commitments and Contingent Liabilities,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

McKESSON CORPORATION

The liability for environmental remediation and other environmental costs is accrued when the Company considers it probable and can reasonably estimate the costs. Environmental costs and accruals, including that related to our legacy chemical distribution operations, are presently not material to our operations or financial position. Although there is no assurance that existing or future environmental laws applicable to our operations or products will not have a material adverse impact on our operations or financial condition, we do not currently anticipate material capital expenditures for environmental matters. Other than the expected expenditures that may be required in connection with our legacy chemical distribution operations, we do not anticipate making substantial capital expenditures either for environmental issues, or to comply with environmental laws and regulations in the future. The amount of our capital expenditures for environmental compliance was not material in 2012 and is not expected to be material in the next year.

Employees: On March 31, 2012, we employed approximately 37,700 persons compared to 36,400 and 32,500 on March 31, 2011 and 2010.

Financial Information About Foreign and Domestic Operations: Information as to foreign and domestic operations is included in Financial Notes 1 and 22, “Significant Accounting Policies” and “Segments of Business,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Forward-Looking Statements

This Annual Report on Form 10-K, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of Part II of this report and the “Risk Factors” in Item 1A of Part I of this report, contains forward-looking statements within the meaning of section 27A of the Securities Act of 1933, as amended and section 21E of the Securities Exchange Act of 1934, as amended. Some of these statements can be identified by use of forward-looking words such as “believes,” “expects,” “anticipates,” “may,” “will,” “should,” “seeks,” “approximately,” “intends,” “plans” or “estimates,” or the negative of these words, or other comparable terminology. The discussion of financial trends, strategy, plans or intentions may also include forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected, anticipated, or implied. Although it is not possible to predict or identify all such risks and uncertainties, they may include, but are not limited to, the factors discussed in Item 1A of Part I of this report under “Risk Factors.” The reader should not consider the list to be a complete statement of all potential risks and uncertainties.

These and other risks and uncertainties are described herein and in other information contained in our publicly available SEC filings and press releases. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date such statements were first made. Except to the extent required by federal securities laws, we undertake no obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof, or to reflect the occurrence of unanticipated events.

Item 1A. Risk Factors.

The risks described below could have a material adverse impact on our financial position, results of operations, liquidity and cash flows. Although it is not possible to predict or identify all such risks and uncertainties, they may include, but are not limited to, the factors discussed below. Our business operations could also be affected by additional factors that are not presently known to us or that we currently consider not to be material to our operations. The reader should not consider this list to be a complete statement of all risks and uncertainties.

We are subject to legal proceedings that could have a material adverse impact on our financial position and results of operations.

From time-to-time and in the ordinary course of our business, we and certain of our subsidiaries may become involved in various legal proceedings involving antitrust, commercial, employment, environmental, intellectual property, regulatory, tort and other various claims. All such legal proceedings are inherently unpredictable, and the outcome can result in excessive verdicts and/or injunctive relief that may affect how we operate our business or we may enter into settlements of claims for monetary damages. In some cases, substantial non-economic remedies or punitive damages may be sought. For some complaints filed against the Company, we are currently unable to estimate the amount of possible losses that might be incurred should these legal proceedings be resolved against the Company.

McKESSON CORPORATION

The outcome of litigation and other legal matters is always uncertain and outcomes that are not justified by the evidence or existing law can occur. The Company believes that it has valid defenses to the legal matters pending against it and is defending itself vigorously. Nevertheless, it is possible that resolution of one or any combination of more than one legal matter could result in a material adverse impact on our financial position or results of operations. For example, we are involved in a number of legal proceedings described in Financial Note 19, "Other Commitments and Contingent Liabilities," to the accompanying consolidated financial statements that could have such an impact, including legal proceedings alleging that we engaged in illegal conduct that caused average wholesale prices to rise for certain prescription drugs during specified periods.

Litigation is costly, time-consuming and disruptive to normal business operations. The defense of these matters could also result in continued diversion of our management's time and attention away from business operations, which could also harm our business. Even if these matters are not resolved against us, the uncertainty and expense associated with unresolved legal proceedings could harm our business and reputation. For additional information regarding certain of the legal proceedings in which we are involved, see Financial Note 19, "Other Commitments and Contingent Liabilities," to the accompanying consolidated financial statements.

Changes in the United States healthcare industry and regulatory environment could have a material adverse impact on our results of operations.

Our products and services are primarily intended to function within the structure of the healthcare financing and reimbursement system currently being used in the United States. In recent years, the healthcare industry in the United States has changed significantly in an effort to reduce costs. These changes have included cuts in Medicare and Medicaid reimbursement levels, consolidation of pharmaceutical and medical-surgical supply distributors and the development of large, sophisticated purchasing groups. We expect the healthcare industry in the United States to continue to change and for healthcare delivery models to evolve in the future.

Changes in the healthcare industry's or our pharmaceutical suppliers' pricing, selling, inventory, distribution or supply policies or practices could significantly reduce our revenues and net income. Due to the diverse range of healthcare supply management and healthcare information technology products and services that we offer, such changes could have a material adverse impact on our results of operations, while not affecting some of our competitors who offer a narrower range of products and services.

The majority of our U.S. pharmaceutical distribution business' agreements with manufacturers are structured to ensure that we are appropriately and predictably compensated for the services we provide; however, failure to successfully renew these contracts in a timely and favorable manner could have a material adverse impact on our results of operations. In addition, branded pharmaceutical price inflation can be the partial economic basis of some of our distribution business agreements with pharmaceutical manufacturers. If the frequency or rate of branded price increases slows, it could have a material adverse impact on our results of operations.

In addition, we distribute generic pharmaceuticals, which can be subject to both price deflation and price inflation. Healthcare and public policy trends indicate that the number of generic drugs will increase next year as a result of the expiration of certain drug patents. In recent years, our financial results have improved from our generic drug offerings combined with an increase in the number of generic drug formularies available in the marketplace. Changes in the availability, pricing trends or reimbursement of these generic drugs, or changes in the rate of increase in the number of generic drugs, could have a material adverse impact on our results of operations.

Generic drug manufacturers are increasingly challenging the validity or enforceability of patents on branded pharmaceutical products. During the pendency of these legal challenges, a generics manufacturer may begin manufacturing and selling a generic version of the branded product prior to the final resolution to its legal challenge over the branded product's patent. To the extent we source, contract manufacture, and distribute such generic products, the brand-name company could assert infringement claims against us. While we generally obtain indemnification against such claims from generic manufacturers as a condition of distributing their products, there can be no assurances that these rights will be adequate or sufficient to protect us.

McKESSON CORPORATION

In recent years, pharmaceutical suppliers have been subject to increasing consolidation. As a result, a small number of very large companies control a significant share of the market. Accordingly, we depend on fewer suppliers for our products and therefore we may be less able to negotiate price terms with suppliers.

Many healthcare organizations also have consolidated to create larger healthcare enterprises with greater market power. If this consolidation trend continues, it could reduce the size of our target market and give the resulting enterprises greater bargaining power, which may lead to erosion of the prices for our products and services. In addition, when healthcare organizations combine they often consolidate infrastructure including IT systems, which in turn may erode our customer and revenue base.

The healthcare industry is highly regulated, and further regulation of our distribution businesses and computer-related products and services could impose increased costs, negatively impact our profit margins, and the profit margins of our customers, delay the introduction or implementation of our new products, or otherwise negatively impact our business and expose the Company to litigation and regulatory investigations.

Healthcare Fraud: We are subject to extensive and frequently changing local, state and federal laws and regulations relating to healthcare fraud, waste and abuse, and the government, both state and federal, continues to strengthen its position and scrutiny over practices involving fraud, waste and abuse affecting Medicare, Medicaid and other government healthcare programs. Our relationships with pharmaceutical and medical-surgical product manufacturers and healthcare providers, as well as our provision of products and services to government entities, subject our business to laws and regulations on fraud and abuse, which among other things: (1) prohibit persons from soliciting, offering, receiving or paying any remuneration in order to induce the referral of a patient for treatment or for inducing the ordering or purchasing of items or services that are in any way paid for by Medicare, Medicaid or other government-sponsored healthcare programs; (2) impose a number of restrictions upon referring physicians and providers of designated health services under Medicare and Medicaid programs; and (3) prohibit the knowing submission of a false or fraudulent claim for payment to, and knowing retention of an overpayment by, a federal health care program such as Medicare and Medicaid. Many of the regulations applicable to us, including those relating to marketing incentives, are vague or indefinite and have not been interpreted by the courts. They may be interpreted or applied by a prosecutorial, regulatory, or judicial authority in a manner that could require us to make changes in our operations. If we fail to comply with applicable laws and regulations, we could become liable for damages, suffer civil and criminal penalties, including the loss of licenses or our ability to participate in Medicare, Medicaid and other federal and state healthcare programs.

Reimbursements: Both our profit margins and the profit margins of our customers may be adversely affected by laws and regulations reducing reimbursement rates for pharmaceuticals, medical treatments and related services, or changing the methodology by which reimbursement levels are determined. For example, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively the “Affordable Care Act”), signed into law in 2010, revised the federal upper limits for Medicaid reimbursement for multiple source generic drugs available for purchase by retail community pharmacies on a nationwide basis to a limit of not less than 175% of the weighted average (determined on the basis of utilization) of the most recently reported monthly average manufacturer price (“AMP”) using a smoothing process. In addition, Medicare, Medicaid and the State Children’s Health Insurance Program (“SCHIP”) Extension Act of 2007 requires the Centers for Medicare and Medicaid Services (“CMS”) to adjust the calculation of the Medicare Part B drug average sales price to an actual sales volume basis. CMS has proposed new rules for calculating AMP (“Revised AMP”) and is also offering states the option to replace traditional reimbursement metrics for certain drugs with alternatives such as the average acquisition cost (“AAC”) method. Under AAC, reimbursement is based on the actual acquisition costs from invoiced amounts and from a statistically validated cost of dispensing survey. We expect that the use of a Revised AMP benchmark or the use of an alternative reimbursement metric, such as AAC, would result in a reduction in the Medicaid reimbursement rates to our customers for certain pharmaceuticals, which could indirectly impact the prices that we can charge our customers and cause corresponding declines in our profitability. There can be no assurance that these changes would not have a material adverse impact on our results of operations.

McKESSON CORPORATION

Operating, Security and Licensure Standards: We are subject to the operating and security standards of the Drug Enforcement Administration (the “DEA”), the U. S. Food and Drug Administration (“FDA”), various state boards of pharmacy, state health departments, the U.S. Department of Health and Human Services (“HHS”), the CMS and other comparable agencies. Certain of our businesses may be required to register for permits and/or licenses with, and comply with operating and security standards of the DEA, FDA, HHS, CMS, various state boards of pharmacy, state health departments and/or comparable state agencies as well as foreign agencies and certain accrediting bodies, depending upon the type of operations and location of product development, manufacture, distribution, and sale. As part of these operating, security and licensure standards, we regularly receive requests for information and occasionally subpoenas from government authorities. Although we believe that we are in compliance in all material respects with applicable laws and regulations, there can be no assurance that a regulatory agency or tribunal would not reach a different conclusion concerning the compliance of our operations with applicable laws and regulations. In addition, there can be no assurance that we will be able to maintain or renew existing permits, licenses or any other regulatory approvals or obtain without significant delay future permits, licenses or other approvals needed for the operation of our businesses. Any noncompliance by us with applicable laws and regulations or the failure to maintain, renew or obtain necessary permits and licenses could have a material adverse impact on our results of operations.

Pedigree Tracking: There have been increasing efforts by Congress and state and federal agencies, including state boards of pharmacy and departments of health and the FDA, to regulate the pharmaceutical distribution system in order to prevent the introduction of counterfeit, adulterated and/or mislabeled drugs into the pharmaceutical distribution system (“pedigree tracking”). Certain states have adopted or are considering laws and regulations that are intended to protect the integrity of the pharmaceutical distribution system, while other government agencies are currently evaluating their recommendations. For example, Florida has adopted pedigree tracking requirements and California has enacted a law requiring chain of custody technology using radio frequency tagging and electronic pedigrees, which will be effective for us in July 2016.

In addition, the Food and Drug Administration Amendments Act of 2007, which went into effect on October 1, 2007, requires the FDA to establish standards and identify and validate effective technologies for the purpose of securing the pharmaceutical supply chain against counterfeit drugs. These standards may include any track-and-trace or authentication technologies, such as radio frequency identification devices and other similar technologies. On March 26, 2010, the FDA released the Serialized Numerical Identifier (“SNI”) guidance for manufacturers who serialize pharmaceutical packaging. We expect to be able to accommodate these SNI regulations in our distribution operations. Nonetheless, these pedigree tracking laws and regulations could increase the overall regulatory burden and costs associated with our pharmaceutical distribution business, and could have a material adverse impact on our results of operations.

Privacy: State, federal and foreign laws regulate the confidentiality of sensitive personal information, how that information may be used, and the circumstances under which such information may be released. These regulations govern the disclosure and use of confidential personal and patient medical record information and require the users of such information to implement specified privacy and security measures. Regulations currently in place, including regulations governing electronic health data transmissions, continue to evolve and are often unclear and difficult to apply. Although we modified our policies, procedures and systems to comply with the current requirements of applicable state, federal and foreign laws, including the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) and the Health Information Technology for Economic and Clinical Health (“HITECH”) Act portion of the American Recovery and Reinvestment Act of 2009, new laws and regulations in this area could restrict the ability of our customers to obtain, use or disseminate personal or patient information, or it could require us to incur significant additional costs to re-design our products in a timely manner, either of which could have a material adverse impact on our results of operations. In addition, the HITECH Act expanded HIPAA privacy and security requirements and increased financial penalties for violations. It also extended certain provisions of the federal privacy and security standards to us in our capacity as a business associate of our payer and provider customers. These standards may be interpreted by a regulatory authority in a manner that could require us to make a material change to our operations. Furthermore, failure to maintain confidentiality of sensitive personal information in accordance with applicable regulatory requirements could expose us to breach of contract claims, fines and penalties, costs for remediation and harm to our reputation.

McKESSON CORPORATION

Health Care Reform: The Affordable Care Act significantly expanded health insurance coverage to uninsured Americans and changed the way health care is financed by both governmental and private payers. Although the U.S. Supreme Court is considering whether to strike down some or all of the Act's provisions, further federal and state proposals for healthcare reform are likely. We do not currently anticipate that the Affordable Care Act or any resulting federal and state healthcare reforms will have a material impact on our business, financial condition and results of operations. However, given the scope of the changes made and under consideration, as well as the uncertainties associated with implementation of healthcare reforms, we cannot predict their full effect on the Company at this time.

Interoperability Standards: There is increasing demand among customers, industry groups and government authorities that healthcare software and systems provided by various vendors be compatible with each other. This need for interoperability is leading to the development of standards by various groups, and certain federal and state agencies are also developing standards that could become mandatory for systems purchased by these agencies. For example, the HITECH Act requires meaningful use of "certified" healthcare information technology products by healthcare providers in order to receive stimulus funds from the federal government. Effective September 27, 2010, CMS issued a rule that utilizes a staged approach for defining meaningful use criteria. Under the staged approach, CMS has issued rules that identify the initial criteria for meaningful use and is updating these initial criteria with additional rules. In addition, these standards are subject to interpretation by the entities designed to certify such technology. A combination of our solutions has been certified as meeting the initial criteria. However, we may incur increased development costs and delays in upgrading our customer software and systems to be in compliance with these varying and evolving standards. In addition, these new standards may lengthen our sales and implementation cycle and we may incur costs in periods prior to the corresponding recognition of revenue. To the extent these standards are narrowly construed or delayed in publication, or that we are delayed in achieving certification under these evolving standards for applicable products, our customers may postpone or cancel their decisions to purchase or implement our software and systems.

FDA Regulation of Medical Software. The FDA has increasingly focused on the regulation of medical software, computer products and computer-assisted products as medical devices under the federal Food, Drug and Cosmetic Act. For example, effective April 18, 2011, the FDA issued a new rule regulating certain computer data systems as medical devices. If the FDA chooses to regulate any of our products as medical devices, it can impose extensive requirements upon us. If we fail to comply with the applicable requirements, the FDA could respond by imposing fines, injunctions or civil penalties, requiring recalls or product corrections, suspending production, refusing to grant pre-market clearance of products, withdrawing clearances and initiating criminal prosecution. Additionally, beginning in calendar 2013, the Affordable Care Act provides that a tax in an amount equal to 2.3 percent of the price for which the manufacturer sells its medical devices will have to be paid by each medical device manufacturer. Since we sell medical devices, we may be impacted by this tax. Any additional FDA regulations governing computer products, once issued, may increase the cost and time to market new or existing products or may prevent us from marketing our products.

Standards for Submission of Health Care Claims: HHS has adopted two new rules that impact healthcare claims submitted for reimbursement. The first rule modifies the standards for electronic health care transactions (e.g., eligibility, claims submission and payment and electronic remittance) from Version 4010/4010A to Version 5010. The enforcement deadline for the 5010 rule has been extended through June 30, 2012. The second rule updated and expanded the standard medical code sets for diagnosis and procedure coding from International Classification of Diseases, Ninth Revision ("ICD-9") to International Classification of Diseases, Tenth Revision ("ICD-10"). HHS has postponed the compliance date for ICD-10 conversion, previously October 1, 2013, for an unspecified period. Updating systems to Version 5010 is required for use of the ICD-10 code set. Generally, claims submitted not using Version 5010 and ICD-10 when required will not be processed, and health plans not accepting transactions using Version 5010 and ICD-10 may experience significant increases in customer service inquiries. We may incur increased development costs and delays in delivering solutions and upgrading our software and systems to be in compliance with these new standards. In addition, these standards may lengthen our sales and implementation cycle and we may incur costs in periods prior to the corresponding recognition of revenue. Delays in providing software and systems that are in compliance with the new standards may result in postponement or cancellation of our customers' decisions to purchase our software and systems.

McKESSON CORPORATION

Medical Billing and Coding: Medical billing, coding and collection activities are governed by numerous federal and state civil and criminal laws. In connection with these laws, we may be subjected to federal or state government investigations and possible penalties may be imposed upon us, false claims actions may have to be defended, private payers may file claims against us and we may be excluded from Medicare, Medicaid or other government-funded healthcare programs. Any such proceeding or investigation could have a material adverse impact on our results of operations.

Changes in the Canadian healthcare industry and regulatory environment could have a material adverse impact on our results of operations.

The provincial governments in Canada provide partial funding for the purchase of pharmaceuticals and independently regulate the sale and reimbursement of drugs. Similar to the United States, the Canadian healthcare industry has undergone significant changes in recent years in an effort to reduce program costs. For example, in 2006 the Ontario government significantly revised the drug reimbursement system with the passage of the Transparent Drug System for Patients Act. In recent years, to reduce the cost for taxpayers, various provinces took further steps to reform the rules regarding the sale of generic drugs. These changes include the significant lowering of prices for generic pharmaceuticals and, in some provinces, the elimination or reduction of professional allowances paid to pharmacists by generic manufacturers. These reforms may adversely affect the distribution of drugs as well as the pricing for prescription drugs for the Company's operations in Canada. Other provinces are considering similar changes, which would also lower pharmaceutical pricing and service fees. Individually or in combination, such changes in the Canadian healthcare environment may significantly reduce our Canadian revenue and operating profit.

Competition may erode our profit.

In every area of healthcare distribution operations, our Distribution Solutions segment faces strong competition, both in price and service, from national, regional and local full-line, short-line and specialty wholesalers, service merchandisers, self-warehousing chains, manufacturers engaged in direct distribution, third-party logistics companies and large payer organizations. In addition, this segment faces competition from various other service providers and from pharmaceutical and other healthcare manufacturers as well as other potential customers of the segment, which may from time-to-time decide to develop, for their own internal needs, supply management capabilities that would otherwise be provided by the segment. Price, quality of service, and in some cases, convenience to the customer are generally the principal competitive elements in this segment.

Our Technology Solutions segment experiences substantial competition from many firms, including other software services firms, consulting firms, shared service vendors, certain hospitals and hospital groups, payers, care management organizations, hardware vendors and internet-based companies with technology applicable to the healthcare industry. Competition varies in size from small to large companies, in geographical coverage and in scope and breadth of products and services offered. These competitive pressures could have a material adverse impact on our results of operations.

A material reduction in purchases or the loss of a large customer or group purchasing organization, as well as substantial defaults in payment by a large customer or group purchasing organization, could have a material adverse impact on our financial condition, results of operations and liquidity.

In recent years, a significant portion of our revenue growth has been with a limited number of large customers. During 2012, sales to our ten largest customers accounted for approximately 52% of our total consolidated revenues. Sales to our two largest customers, CVS and Rite Aid, accounted for approximately 16% and 10% of our total consolidated revenues. At March 31, 2012, accounts receivable from our ten largest customers were approximately 49% of total accounts receivable. Accounts receivable from CVS, Walmart and Rite Aid were approximately 17%, 10% and 9% of total accounts receivable. As a result, our sales and credit concentration is significant. We also have agreements with group purchasing organizations ("GPOs"), each of which functions as a purchasing agent on behalf of member hospitals, pharmacies and other healthcare providers, as well as with government entities and agencies. A material default in payment, change in our customer mix, reduction in purchases, or the loss of a large customer or GPO could have a material adverse impact on our financial condition, results of operations and liquidity.

McKESSON CORPORATION

We generally sell our products and services to customers on credit that is short-term in nature and unsecured. Any adverse change in general economic conditions can adversely reduce sales to our customers, affect consumer buying practices or cause our customers to delay or be unable to pay accounts receivable owed to us, which may in turn materially reduce our revenue growth and cause a material decrease in our profitability and cash flow. Further, interest rate fluctuations and changes in capital market conditions may also affect our customers' ability to obtain credit to finance their business under acceptable terms, which in turn may materially reduce our revenue growth and cause a decrease in our profitability.

Contracts with the U.S. federal government and other governments and their agencies pose additional risks relating to future funding and compliance.

Contracts with the U.S. federal government and other governments and their agencies are subject to various uncertainties, restrictions and regulations, including oversight audits by various government authorities and profit and cost controls. Government contracts also are exposed to uncertainties associated with funding. Contracts with the U.S. federal government, for example, are subject to the uncertainties of Congressional funding. Governments are typically under no obligation to maintain funding at any specific level, and funds for government programs may even be eliminated. As a result, our government clients may terminate our contracts for convenience or decide not to renew our contracts with little or no prior notice. The loss of such contracts could have a material adverse impact on our results of operations.

In addition, since government contracts are subject to specific procurement regulations and a variety of other socio-economic requirements, we must comply with such requirements. For example, for contracts with the U.S. federal government, with certain exceptions, we must comply with the Federal Acquisition Regulation, the Truth in Negotiations Act, and the Cost Accounting Standards. We must also comply with various other government regulations and requirements as well as various statutes related to employment practices, environmental protection, recordkeeping and accounting. These regulations and requirements affect how we transact business with our clients and, in some instances, impose additional costs on our business operations. Government contracts also contain terms that expose us to higher levels of risk and potential liability than non-government contracts.

We also are subject to government audits, investigations, and proceedings. For example, government agencies routinely review and audit government contractors to determine whether allowable costs are in accordance with applicable government regulations. These audits can result in adjustments to the amount of contract costs we believe are reimbursable by the agencies and the amount of our overhead costs allocated to the agencies.

If we violate these rules or regulations, fail to comply with a contractual or other requirement or do not satisfy an audit, a variety of penalties can be imposed by the government including disallowance of costs claimed, monetary damages and criminal and civil penalties. In addition, any or all of our government contracts could be terminated, we could be suspended or debarred from all government contract work. The occurrence of any of these actions could harm our reputation and could have a material adverse impact on our results of operations.

Our future results could be materially affected by a number of public health issues whether occurring in the United States or abroad.

Public health issues, whether occurring in the United States or abroad, could disrupt our operations, disrupt the operations of suppliers or customers, or have a broader adverse impact on consumer spending and confidence levels that would negatively affect our suppliers and customers. We have developed contingency plans to address infectious disease scenarios and the potential impact on our operations, and we will continue to update these plans as necessary. However, there can be no assurance that these plans will be effective in eliminating the negative impact of any such diseases on the Company's operating results. We may be required to suspend operations in some or all of our locations, which could have a material adverse impact on our business, financial condition and results of operations.

McKESSON CORPORATION

Our Distribution Solutions segment is dependent upon sophisticated information systems. The implementation delay, malfunction, or failure of these systems for any extended period of time or breach of these systems could have a material adverse impact on our business.

We rely on sophisticated information systems in our business to obtain, rapidly process, analyze and manage data to: (1) facilitate the purchase and distribution of thousands of inventory items from numerous distribution centers; (2) receive, process and ship orders and handle other product and services on a timely basis; (3) manage the accurate billing and collections for thousands of customers; and (4) process payments to suppliers. If these systems are interrupted, damaged or breached by an unforeseen event or actions of a third party, such as a cyber attack, or fail for any extended period of time, we could have a material adverse impact on our results of operations.

We could experience losses or liability not covered by insurance.

In order to provide prompt and complete service to our major Distribution Solutions segment's customers, we maintain significant product inventory at certain of our distribution centers. While we seek to maintain property insurance coverage in amounts sufficient for our business, there can be no assurance that our property insurance will be adequate or available on acceptable terms. One or more large casualty losses caused by fire, earthquake or other natural disaster in excess of our coverage limits could have a material adverse impact on our results of operations.

Our business exposes us to risks that are inherent in the distribution, manufacturing, dispensing and administration of pharmaceuticals and medical-surgical supplies, the provision of ancillary services, the conduct of our payer businesses (which include care management programs and our nurse advice services) and the provision of products that assist clinical decision-making and relate to patient medical histories and treatment plans. If customers or individuals assert liability claims against our products and/or services, any ensuing litigation, regardless of outcome, could result in a substantial cost to us, divert management's attention from operations and decrease market acceptance of our products. We attempt to limit our liability to customers by contract; however, the limitations of liability set forth in the contracts may not be enforceable or may not otherwise protect us from liability for damages. Additionally, we may be subject to claims that are not explicitly covered by contract, such as a claim directly by a patient. We also maintain general liability coverage; however, this coverage may not continue to be available on acceptable terms, may not be available in sufficient amounts to cover one or more large claims against us and may include larger self-insured retentions or exclusions for certain products. In addition, the insurer might disclaim coverage as to any future claim. A successful product or professional liability claim not fully covered by our insurance could have a material adverse impact on our results of operations.

The failure of our healthcare technology businesses to attract and retain customers due to challenges in software product integration or to keep pace with technological advances may significantly reduce our results of operations.

Our healthcare technology businesses, the bulk of which resides in our Technology Solutions segment, deliver enterprise-wide clinical, patient care, financial, supply chain, strategic management software solutions and pharmacy automation to hospitals, physicians, homecare providers, retail and mail order pharmacies and payers. Challenges integrating software products could impair our ability to attract and retain customers, and it could have a material adverse impact on our consolidated results of operations and a disproportionate impact on the results of operations of our Technology Solutions segment.

Future advances in the healthcare information systems industry could lead to new technologies, products or services that are competitive with the technology products and services offered by our various businesses. Such technological advances could also lower the cost of such products and services or otherwise result in competitive pricing pressure or render our products obsolete.

The success of our technology businesses will depend, in part, on our ability to be responsive to technological developments, pricing pressures and changing business models. To remain competitive in the evolving healthcare information systems marketplace, our technology businesses must also develop new products on a timely basis. The failure to develop competitive products and to introduce new products on a timely basis could curtail the ability of our technology businesses to attract and retain customers, and thereby it could have a material adverse impact on our results of operations.

McKESSON CORPORATION

Proprietary protections may not be adequate and products may be found to infringe the rights of third parties.

We rely on a combination of trade secret, patent, copyright and trademark laws, nondisclosure and other contractual provisions and technical measures to protect our proprietary rights in our products and solutions. There can be no assurance that these protections will be adequate or that our competitors will not independently develop products or solutions that are equivalent or superior to ours. In addition, despite protective measures, we may be subject to unauthorized use of our technology due to copying, reverse-engineering or other infringement. Although we believe that our products, solutions and services do not infringe the proprietary rights of third parties, from time-to-time third parties have asserted infringement claims against us and there can be no assurance that third parties will not assert infringement claims against us in the future. If we were found to be infringing others' rights, we may be required to pay substantial damage awards and forced to develop non-infringing products or technology, obtain a license or cease selling or using the products that contain the infringing elements. Additionally, we may find it necessary to initiate litigation to protect our trade secrets, to enforce our patent, copyright and trademark rights and to determine the scope and validity of the proprietary rights of others. These types of litigation can be costly and time consuming. These litigation expenses, damage payments or costs of developing replacement products or technology could have a material adverse impact on our results of operations.

System errors or failures of our products to conform to specifications could cause unforeseen liabilities or injury, harm our reputation and have a material adverse impact on our results of operations.

The software and software systems ("systems") that we sell or operate are very complex. As with complex systems offered by others, our systems may contain errors, especially when first introduced. For example, our Technology Solutions segment's business systems are intended to provide information for healthcare providers in providing patient care. Therefore, users of our systems have a greater sensitivity to errors than the general market for software products. If our software or systems lead to faulty clinical decisions or injury to patients, we could be subject to claims or litigation by our clients, clinicians or patients. In addition, such failures could damage our reputation and could negatively affect future sales.

Failure of a client's system to perform in accordance with our documentation could constitute a breach of warranty and could require us to incur additional expense in order to make the system comply with the documentation. If such failure is not remedied in a timely manner, it could constitute a material breach under a contract, allowing the client to cancel the contract, obtain refunds of amounts previously paid or assert claims for significant damages.

Various risks could interrupt customers' access to their data residing in our service center, exposing us to significant costs.

We provide remote hosting services that involve operating both our software and the software of third-party vendors for our customers. The ability to access the systems and the data that we host and support on demand is critical to our customers. Our operations and facilities are vulnerable to interruption and/or damage from a number of sources, many of which are beyond our control, including, without limitation: (1) power loss and telecommunications failures; (2) fire, flood, hurricane and other natural disasters; (3) software and hardware errors, failures or crashes; and (4) cyber attacks, computer viruses, hacking and other similar disruptive problems. We attempt to mitigate these risks through various means including disaster recovery plans, separate test systems and change controls, information security procedures, and continued development and enhancement of our cyber security, but our precautions may not protect against all risks. If customers' access is interrupted because of problems in the operation of our facilities, we could be exposed to significant claims, particularly if the access interruption is associated with problems in the timely delivery of medical care. If customers' access is interrupted from failure or breach of our operational or information security systems, or those of our third party service providers, we could suffer reputational harm or be exposed to liabilities arising from the unauthorized and improper use or disclosure of confidential or proprietary information. We must maintain disaster recovery and business continuity plans that rely upon third-party providers of related services and if those vendors fail us at a time that our center is not operating correctly, we could incur a loss of revenue and liability for failure to fulfill our contractual service commitments. Any significant instances of system downtime could negatively affect our reputation and ability to sell our remote hosting services.

McKESSON CORPORATION

The length of our sales and implementation cycles for our Technology Solutions segment could have a material adverse impact on our future results of operations.

Many of the solutions offered by our Technology Solutions segment have long sales and implementation cycles, which could range from a few months to two years or more from initial contact with the customer to completion of implementation. How and when to implement, replace, or expand an information system, or modify or add business processes, are major decisions for healthcare organizations. Many of the solutions we provide typically require significant capital expenditures and time commitments by the customer. Any decision by our customers to delay or cancel implementation could have a material adverse impact on our results of operations. Furthermore, delays or failures to meet milestones established in our agreements may result in a breach of contract, termination of the agreement, damages and/or penalties as well as a reduction in our margins or a delay in our ability to recognize revenue.

We may be required to record a significant charge to earnings if our goodwill or intangible assets become impaired.

We are required under U.S. generally accepted accounting principles (“GAAP”) to test our goodwill for impairment, annually or more frequently if indicators for potential impairment exist. Indicators that are considered include significant changes in performance relative to expected operating results, significant changes in the use of the assets, significant negative industry, or economic trends or a significant decline in the Company’s stock price and/or market capitalization for a sustained period of time. In addition, we periodically review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Factors that may be considered a change in circumstances indicating that the carrying value of our intangible assets may not be recoverable include slower growth rates and the loss of a significant customer. We may be required to record a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill or intangible assets is determined. This could have a material adverse impact on our results of operations. There are inherent uncertainties in management’s estimates, judgments and assumptions used in assessing recoverability of goodwill and intangible assets. Any changes in key assumptions, including failure to meet business plans, a further deterioration in the market or other unanticipated events and circumstances, may affect the accuracy or validity of such estimates and could potentially result in an impairment charge.

Our foreign operations may subject us to a number of operating, economic, political and regulatory risks that may have a material adverse impact on our financial condition and results of operations.

We have operations based in, and we source and contract manufacture pharmaceutical and medical-surgical products in, a number of foreign countries. In the future, we look to continue to grow our foreign operations both organically and through acquisitions and investments; however, increasing our foreign operations carries additional risks. Operations outside of the United States may be affected by changes in trade protection laws, policies and measures and other regulatory requirements affecting trade and investment; unexpected changes in regulatory requirements for software, social, political, labor or economic conditions in a specific country or region; import/export regulations in both the United States and foreign countries and difficulties in staffing and managing foreign operations. Political changes and natural disasters, some of which may be disruptive, can interfere with our supply chain, our customers and all of our activities in a particular location. We may also be affected by potentially adverse tax consequences and difficulties associated with repatriating cash generated or held abroad. Additionally, foreign operations expose us to foreign currency fluctuations that could adversely impact our results of operations based on the movements of the applicable foreign currency exchange rates in relation to the U.S. dollar.

Foreign operations are also subject to risks of violations of laws prohibiting improper payments and bribery, including the U.S. Foreign Corrupt Practices Act and similar regulations in foreign jurisdictions. Failure to comply with these laws could subject us to civil and criminal penalties that could have a material adverse impact on our financial condition and results of operations.

McKESSON CORPORATION

We also may experience difficulties and delays inherent in sourcing products and contract manufacturing from foreign countries, including but not limited to: (1) difficulties in complying with the requirements of applicable federal, state and local governmental authorities in the United States and of foreign regulatory authorities; (2) inability to increase production capacity commensurate with demand or the failure to predict market demand; (3) other manufacturing or distribution problems including changes in types of products produced, limits to manufacturing capacity due to regulatory requirements, physical limitations, or scarce or inadequate resources that could impact continuous supply; and (4) damage to our reputation due to real or perceived quality issues. Manufacturing difficulties could result in production shutdowns, product shortages and other similar delays in product manufacturing that could have a material adverse impact on our financial condition and results of operations.

Tax legislation initiatives or challenges to our tax positions could have a material adverse impact on our results of operations.

We are a large multinational corporation with operations in the United States and international jurisdictions. As such, we are subject to the tax laws and regulations of the United States federal, state and local governments and of many international jurisdictions. From time-to-time, legislation may be enacted that could adversely affect our tax positions. There can be no assurance that our effective tax rate and the resulting cash flow will not be adversely affected by these changes in legislation. For example, if legislation is passed to repeal the LIFO (last-in, first-out) method of inventory accounting for income tax purposes, it would adversely impact our cash flow, and if legislation is passed to change the current U.S. taxation treatment of income from foreign operations, it may adversely impact our income tax expense. The tax laws and regulations of the various countries where we have major operations are extremely complex and subject to varying interpretations. Although we believe that our historical tax positions are sound and consistent with applicable laws, regulations and existing precedent, there can be no assurance that these tax positions will not be challenged by relevant tax authorities or that we would be successful in any such challenge.

Our business could be hindered if we are unable to complete and integrate acquisitions successfully.

An element of our strategy is to identify, pursue and consummate acquisitions that either expand or complement our business. Since 2010, we have completed approximately \$3.4 billion of business acquisitions. Integration of acquisitions involves a number of significant risks, including the diversion of management's attention to the assimilation of the operations of businesses we have acquired; difficulties in the integration of operations and systems; the realization of potential operating synergies; the assimilation and retention of the personnel of the acquired companies; accounting, regulatory or compliance issues that could arise, including internal control over financial reporting; challenges in retaining the customers, including physician affiliates, of the combined businesses. Further, acquisitions may have a material adverse impact on our operating results if unanticipated expenses or charges to earnings were to occur, including unanticipated depreciation and amortization expenses over the useful lives of certain assets acquired, as well as costs related to potential impairment charges, assumed litigation and unknown liabilities. In addition, we may potentially require additional financing in order to fund future acquisitions, which may or may not be attainable and is subject to potential volatility in the credit markets. If we are unable to successfully complete and integrate strategic acquisitions in a timely manner, our business and our growth strategies could be negatively affected.

Volatility and disruption to the global capital and credit markets may adversely affect our ability to access credit, our cost of credit and the financial soundness of our customers and suppliers.

Volatility and disruption in the global capital and credit markets, including the bankruptcy or restructuring of certain financial institutions, reduced lending activity by other financial institutions, decreased liquidity and increased costs in the commercial paper market and the reduced market for securitizations, may adversely affect the availability and cost of credit already arranged and the availability, terms and cost of credit in the future, including any arrangements to renew or replace our current credit or financing arrangements. Although we believe that our operating cash flow, financial assets, current access to capital and credit markets, including our existing credit and sales facilities, will give us the ability to meet our financing needs for the foreseeable future, there can be no assurance that continued or increased volatility and disruption in the global capital and credit markets will not impair our liquidity or increase our costs of borrowing.

McKESSON CORPORATION

Our \$1.35 billion accounts receivable sales facility is generally renewed annually and will expire in May 2012. Historically, we have primarily used the accounts receivable sales facility to fund working capital requirements, as needed. We anticipate renewing this facility before its expiration. Although we believe we will be able to renew this facility, there is no assurance that we will be able to do so.

Our business could also be negatively impacted if our customers or suppliers experience disruptions resulting from tighter capital and credit markets or a slowdown in the general economy. As a result, customers may modify, delay or cancel plans to purchase or implement our products or services and suppliers may increase their prices, reduce their output or change their terms of sale. Additionally, if customers' or suppliers' operating and financial performance deteriorates or if they are unable to make scheduled payments or obtain credit, customers may not be able to pay, or may delay payment of accounts receivable owed to us and suppliers may restrict credit, impose different payment terms or be unable to make payments due to us for fees, returned products or incentives. Any inability of customers to pay us for our products and services or any demands by suppliers for different payment terms may have a material adverse impact on our results of operations and cash flow.

Changes in accounting standards issued by the Financial Accounting Standards Board ("FASB") or other standard-setting bodies may adversely affect our financial statements.

Our financial statements are subject to the application of U.S. GAAP, which is periodically revised and/or expanded. Accordingly, from time-to-time we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the FASB and the SEC. It is possible that future accounting standards we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse impact on our results of operations and financial condition.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Because of the nature of our principal businesses, our plant, warehousing, office and other facilities are operated in widely dispersed locations, mostly throughout the U.S. and Canada. The warehouses are typically owned or leased on a long-term basis. We consider our operating properties to be in satisfactory condition and adequate to meet our needs for the next several years without making capital expenditures materially higher than historical levels. Information as to material lease commitments is included in Financial Note 17, "Lease Obligations," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Item 3. Legal Proceedings.

Certain legal proceedings in which we are involved are discussed in Financial Note 19, "Other Commitments and Contingent Liabilities," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Item 4. Mine Safety Disclosures.

Not applicable.

McKESSON CORPORATION**Executive Officers of the Registrant**

The following table sets forth information regarding the executive officers of the Company, including their principal occupations during the past five years. The number of years of service with the Company includes service with predecessor companies.

There are no family relationships between any of the executive officers or directors of the Company. The executive officers are elected on an annual basis generally and their term expires at the first meeting of the Board of Directors ("Board") following the annual meeting of stockholders, or until their successors are elected and have qualified, or until death, resignation or removal, whichever is sooner.

<u>Name</u>	<u>Age</u>	<u>Position with Registrant and Business Experience</u>
John H. Hammergren.....	53	Chairman of the Board since July 2002; President and Chief Executive Officer since April 2001; and a director since July 1999. Service with the Company – 16 years.
Jeffrey C. Campbell.....	51	Executive Vice President and Chief Financial Officer since April 2004. Service with the Company – 8 years.
Patrick J. Blake.....	48	Executive Vice President and Group President since June 2009; President of McKesson Specialty Care Solutions (now McKesson Specialty Health) from April 2006 to June 2009. Service with the Company – 16 years.
Jorge L. Figueredo.....	51	Executive Vice President, Human Resources since May 2008; Senior Vice President, Human Resources, Dow Jones, Inc. from February 2007 to January 2008. Service with the Company – 4 years.
Paul C. Julian.....	56	Executive Vice President and Group President since April 2004. Service with the Company – 16 years.
Laureen E. Seeger.....	50	Executive Vice President, General Counsel and Chief Compliance Officer since April 2010 (functionally has served as chief compliance officer since March 2006); Executive Vice President and General Counsel from July 2009 to April 2010; Executive Vice President, General Counsel and Secretary from March 2006 to July 2009. Service with the Company – 12 years.
Randall N. Spratt	60	Executive Vice President, Chief Technology Officer and Chief Information Officer since April 2009; Executive Vice President, Chief Information Officer from July 2005 to April 2009. Service with the Company – 26 years.

McKESSON CORPORATION

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

- (a) *Market Information:* The principal market on which the Company's common stock is traded is the New York Stock Exchange ("NYSE").

The following table sets forth the high and low sales prices for our common stock as reported on NYSE for each quarterly period of the two most recently completed fiscal years:

	2012		2011	
	High	Low	High	Low
First quarter	\$87.32	\$77.55	\$71.49	\$62.94
Second quarter	\$84.96	\$70.86	\$69.48	\$57.81
Third quarter	\$85.70	\$66.61	\$71.09	\$59.54
Fourth quarter	\$88.91	\$74.89	\$81.00	\$70.44

- (b) *Holders:* The number of record holders of the Company's common stock at March 31, 2012 was approximately 7,700.
- (c) *Dividends:* In April 2011, the Company's quarterly dividend was raised from \$0.18 to \$0.20 per common share for dividends declared after such date, until further action by the Company's Board of Directors (the "Board"). The Company declared regular cash dividends of \$0.80 per share (or \$0.20 per share per quarter) in the year ended March 31, 2012 and \$0.72 per share (or \$0.18 per share per quarter) in the year ended March 31, 2011.
- The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon the Company's future earnings, financial condition, capital requirements and other factors.
- (d) *Securities Authorized for Issuance under Equity Compensation Plans:* Information relating to this item is provided under Part III, Item 12, to this Annual Report on Form 10-K.
- (e) *Share Repurchase Plans:* Stock repurchases may be made from time-to-time in open market transactions, privately negotiated transactions, through accelerated share repurchase ("ASR") programs, or by any combination of such methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations and other market and economic conditions.

In January 2012, the Board authorized the repurchase of an additional \$650 million of the Company's common stock, bringing the total authorization outstanding to \$1.5 billion.

In March 2012, the Company entered into an ASR program with a third party financial institution to repurchase \$1.2 billion of the Company's common stock. The program was funded with cash on hand. As of March 31, 2012, the Company had received 12 million shares representing the minimum number of shares due under this program. The total number of shares to be ultimately repurchased by the Company under this program will be determined at the completion of the program based on the average daily volume-weighted average price of the Company's common stock during the program, less a discount. This program is anticipated to be completed no later than the second quarter of 2013. As of March 31, 2012, \$0.3 billion remained available for future repurchases under the January 2012 authorization.

In April 2012, the Board authorized the repurchase of an additional \$700 million of the Company's common stock, bringing the total authorization outstanding to \$1.0 billion.

McKESSON CORPORATION

The following table provides information on the Company's share repurchases during the fourth quarter of 2012:

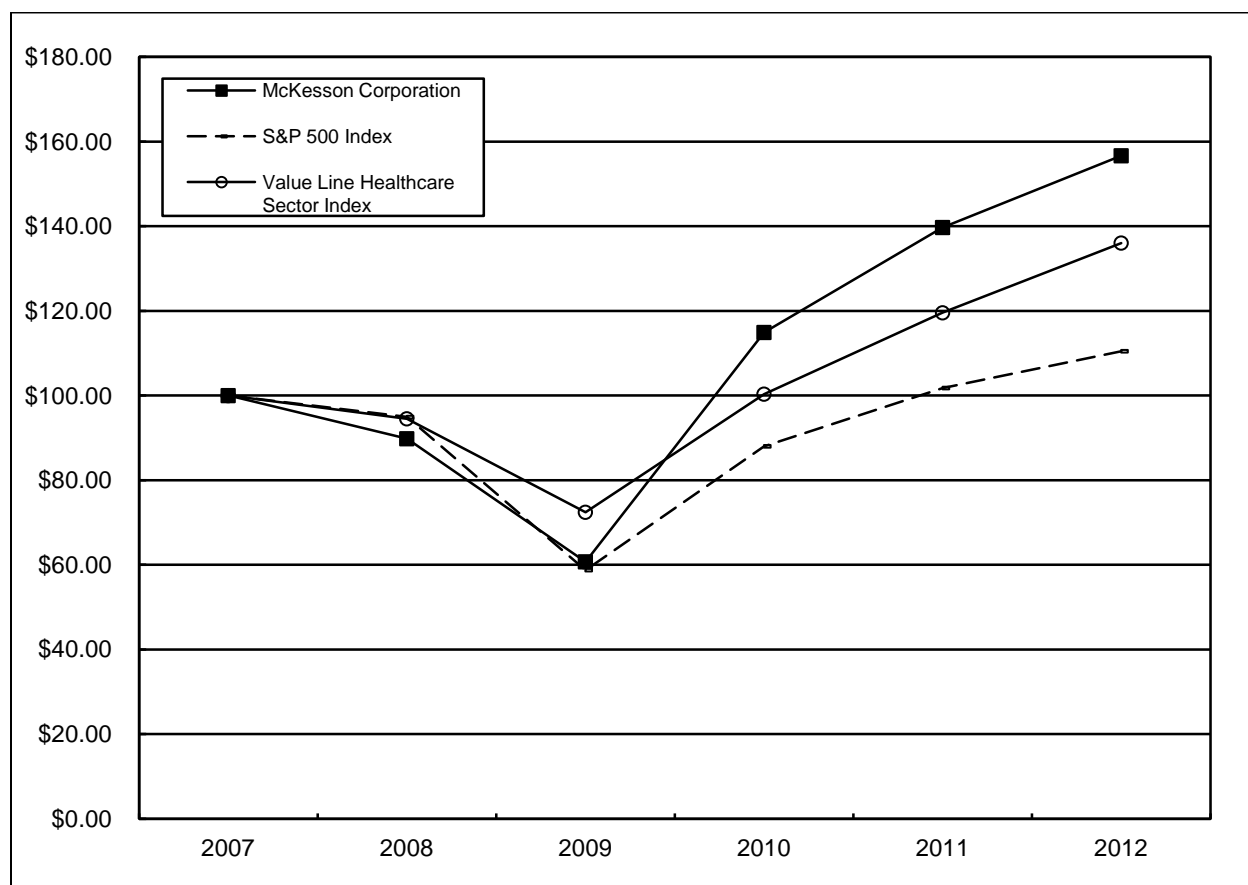
	Share Repurchases ⁽¹⁾			
	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
<i>(In millions, except price per share)</i>				
January 1, 2012 – January 31, 2012	—	\$ —	—	\$ 1,500
February 1, 2012 – February 29, 2012	—	—	—	1,500
March 1, 2012 – March 31, 2012	12.0	87.19 ⁽²⁾	12.0	300
Total	12.0		12.0	300

⁽¹⁾ This table does not include shares tendered to satisfy the exercise price in connection with cashless exercises of employee stock options or shares tendered to satisfy tax-withholding obligations in connection with employee equity awards.

⁽²⁾ The average price paid per share under the March 2012 ASR program was based on the average daily volume-weighted average price of our common stock less a discount calculated as of March 31, 2012. The final settlement price per share under the March 2012 ASR program will be determined upon completion of the program.

McKESSON CORPORATION

- (f) *Stock Price Performance Graph**: The following graph compares the cumulative total stockholder return on the Company's common stock for the periods indicated with the Standard & Poor's 500 Index and the Value Line Healthcare Sector Index (composed of 158 companies in the health care industry, including the Company).



	March 31,					
	2007	2008	2009	2010	2011	2012
McKesson Corporation	\$ 100.00	\$ 89.81	\$ 60.73	\$ 114.92	\$ 139.72	\$ 156.68
S&P 500 Index	\$ 100.00	\$ 94.92	\$ 58.77	\$ 88.02	\$ 101.79	\$ 110.49
Value Line Healthcare Sector Index	\$ 100.00	\$ 94.52	\$ 72.44	\$ 100.35	\$ 119.57	\$ 136.05

* Assumes \$100 invested in McKesson's common stock and in each index on March 31, 2007 and that all dividends are reinvested.

McKESSON CORPORATION

Item 6. Selected Financial Data.

FIVE-YEAR HIGHLIGHTS

	As of and for the Years Ended March 31,				
(In millions, except per share data and ratios)	2012	2011	2010	2009	2008
Operating Results					
Revenues	\$ 122,734	\$ 112,084	\$ 108,702	\$ 106,632	\$ 101,703
Percent change	9.5%	3.1%	1.9%	4.8%	9.4%
Gross profit	6,567	5,970	5,676	5,378	5,009
Income from continuing operations before income taxes	1,919	1,635	1,864	1,064	1,457
Income after income taxes					
Continuing operations	1,403	1,130	1,263	823	989
Discontinued operations	—	72	—	—	1
Net income	1,403	1,202	1,263	823	990
Financial Position					
Working capital	1,917	3,631	4,492	3,065	2,438
Days sales outstanding for: ⁽¹⁾					
Customer receivables	24	25	25	24	22
Inventories	31	31	34	31	33
Drafts and accounts payable	49	47	48	43	44
Total assets	33,093	30,886	28,189	25,267	24,603
Total debt, including capital lease obligations	3,980	4,004	2,297	2,512	1,797
Stockholders' equity	6,831	7,220	7,532	6,193	6,121
Property acquisitions	225	233	199	195	195
Acquisitions, net of cash acquired	1,156	292	18	358	610
Common Share Information					
Common shares outstanding at year-end	235	252	271	271	277
Shares on which earnings per common share were based					
Diluted	251	263	273	279	298
Basic	246	258	269	275	291
Diluted earnings per common share ⁽²⁾					
Continuing operations	\$ 5.59	\$ 4.29	\$ 4.62	\$ 2.95	\$ 3.32
Discontinued operations	—	0.28	—	—	—
Total	5.59	4.57	4.62	2.95	3.32
Cash dividends declared	202	188	131	134	70
Cash dividends declared per common share	0.80	0.72	0.48	0.48	0.24
Book value per common share ^{(2) (3)}	29.07	28.65	27.79	22.87	22.10
Market value per common share – year end	87.77	79.05	65.72	35.04	52.37
Supplemental Data					
Capital employed ⁽⁴⁾	10,811	11,224	9,829	8,705	7,918
Debt to capital ratio ⁽⁵⁾	36.8%	35.7 %	23.4 %	28.9 %	22.7%
Net debt to net capital employed ⁽⁶⁾	10.8%	5.1 %	(23.5)%	6.1 %	6.6 %
Average stockholders' equity ⁽⁷⁾	7,108	7,105	6,768	6,214	6,344
Return on stockholders' equity ⁽⁸⁾	19.7%	16.9 %	18.7 %	13.2 %	15.6 %

Footnotes to Five-Year Highlights:

- (1) Based on year-end balances and sales or cost of sales for the last 90 days of the year.
- (2) Certain computations may reflect rounding adjustments.
- (3) Represents stockholders' equity divided by year-end common shares outstanding.
- (4) Consists of the sum of total debt and stockholders' equity.
- (5) Ratio is computed as total debt divided by capital employed.
- (6) Ratio is computed as total debt, net of cash and cash equivalents ("net debt"), divided by the sum of net debt and stockholders' equity ("net capital employed").
- (7) Represents a five-quarter average of stockholders' equity.
- (8) Ratio is computed as net income divided by a five-quarter average of stockholders' equity.

McKESSON CORPORATION

FINANCIAL REVIEW

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

GENERAL

Management's discussion and analysis of financial condition and results of operations, referred to as the Financial Review, is intended to assist the reader in the understanding and assessment of significant changes and trends related to the results of operations and financial position of the Company together with its subsidiaries. This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying financial notes in Item 8 of Part II of this Annual Report on Form 10-K. The Company's fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references in this document to a particular year shall mean the Company's fiscal year.

Certain statements in this report constitute forward-looking statements. See Item 1 – Business – Forward-Looking Statements in Part I of this Annual Report on Form 10-K for additional factors relating to these statements; also see Item 1A – Risk Factors in Part I of this Annual Report on Form 10-K for a list of certain risk factors applicable to our business, financial condition and results of operations.

We conduct our business through two operating segments: McKesson Distribution Solutions and McKesson Technology Solutions. See Financial Note 22, "Segments of Business," to the consolidated financial statements appearing in this Annual Report on Form 10-K for a description of these segments.

RESULTS OF OPERATIONS

Overview:

<i>(Dollars in millions, except per share data)</i>	Years Ended March 31,			Change	
	2012	2011	2010	2012	2011
Revenues	\$ 122,734	\$ 112,084	\$ 108,702	10%	3%
Gross Profit	\$ 6,567	\$ 5,970	\$ 5,676	10%	5%
Operating Expenses	4,269	3,936	3,688	8	7
Litigation Charges (Credit), Net	149	213	(20)	(30)	—
Total Operating Expenses	4,418	4,149	3,668	6	13
Other Income, Net	21	36	43	(42)	(16)
Interest Expense	(251)	(222)	(187)	13	19
Income from Continuing Operations Before Income Taxes	1,919	1,635	1,864	17	(12)
Income Tax Expense	(516)	(505)	(601)	2	(16)
Income from Continuing Operations	1,403	1,130	1,263	24	(11)
Discontinued Operation – gain on sale, net of tax	—	72	—	—	—
Net Income	\$ 1,403	\$ 1,202	\$ 1,263	17	(5)
Diluted Earnings Per Common Share					
Continuing Operations	\$ 5.59	\$ 4.29	\$ 4.62	30%	(7)%
Discontinued Operation	—	0.28	—	—	—
Total	\$ 5.59	\$ 4.57	\$ 4.62	22	(1)
Weighted Average Diluted Common Shares	251	263	273	(5)%	(4)%

Revenues increased over each of the last two years primarily reflecting market growth in our Distribution Solutions segment, which accounted for approximately 97% of our consolidated revenues. Additionally, revenues for 2012 and 2011 benefited from our December 30, 2010 acquisition of US Oncology Holdings, Inc. ("US Oncology").

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Gross profit and gross profit margin increased over each of the last two years. As a percentage of revenues, gross profit increased 2 basis points (“bp”) to 5.35% in 2012 and 11 bp to 5.33% in 2011. Gross profit margin increased in 2012 compared to 2011 primarily due to the addition of US Oncology, higher generics income in our Distribution Solutions segment and an increase in higher margin revenues in our Technology Solutions segment. These increases were partially offset by a decline in sell margin and by a \$51 million benefit in 2011 associated with the receipt of our share of a settlement of an antitrust class action lawsuit brought against a drug manufacturer in our Distribution Solutions segment.

Gross profit margin increased in 2011 compared to 2010 primarily due to an increase in buy margin, higher generics income and the receipt of \$51 million from an antitrust class action settlement in our Distribution Solutions segment. These increases were partially offset by a decline in our Technology Solutions segment margin, which included a \$72 million asset impairment charge.

Operating expenses increased over each of the last two years primarily reflecting an increase in expenses associated with supporting our higher revenues, the addition of US Oncology, and higher employee compensation and benefits costs, which includes expenses associated with our Profit Sharing Investment Plan (“PSIP”). Operating expenses were also impacted by Average Wholesale Price (“AWP”) litigation charges of \$149 million and \$213 million in 2012 and 2011. Our litigation charges and PSIP expense are more fully described under the caption “Operating Expenses” in this Financial Review.

Other income, net was \$21 million, \$36 million and \$43 million in 2012, 2011 and 2010. In 2011, other income, net includes the receipt of \$16 million representing the reimbursement of post-acquisition interest expense by the former shareholders of US Oncology. In 2010, other income, net includes a \$17 million pre-tax gain (\$14 million after-tax) from the sale of our 50% equity interest in McKesson Logistic Solutions, LLC (“MLS”).

Interest expense increased over each of the last two years primarily due to the assumption of US Oncology’s debt and the subsequent refinancing of the debt, which includes \$25 million of bridge loan financing fees incurred in 2011. Additionally, 2011 interest expense benefited from repayment of \$215 million of long-term debt in March 2010.

Our reported income tax rates were 26.9%, 30.9% and 32.2% in 2012, 2011 and 2010. Fluctuations in our reported income tax rates are primarily due to changes within our business mix, including varying proportions of income attributable to foreign countries that have lower income tax rates. In addition, in 2012, 2011 and 2010, income tax expense includes \$66 million, \$34 million and \$7 million of net income tax benefits for discrete items, which primarily relates to the recognition of previously unrecognized tax benefits and accrued interest. Included in the 2012 discrete tax benefit, is a \$31 million credit to income tax expense as a result of the reversal of an income tax reserve relating to our AWP litigation.

Net income was \$1,403 million, \$1,202 million and \$1,263 million in 2012, 2011 and 2010, and diluted earnings per common share were \$5.59, \$4.57 and \$4.62. Net income for 2012 and 2011 includes after-tax AWP litigation charges of \$60 million and \$149 million. Additionally, net income for 2011 includes a \$72 million after-tax gain (or \$0.28 per diluted share) on the sale of our Technology Solutions segment’s wholly-owned subsidiary, McKesson Asia Pacific Pty Limited (“MAP”), which was sold in July 2010. Historical financial results for this subsidiary were not material. Diluted earnings per common share were favorably affected by decreases in our weighted average shares outstanding due to the cumulative effect of share repurchases over the past three years.

Weighted average diluted common shares outstanding decreased over each of the last two years due to our share repurchases. In 2012, 2011, and 2010, we repurchased 20 million, 29 million and 8 million of our common shares.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Revenues:

<i>(Dollars in millions)</i>	Years Ended March 31,			Change	
	2012	2011	2010	2012	2011
Distribution Solutions					
Direct distribution & services	\$ 85,523	\$ 77,554	\$ 72,210	10%	7%
Sales to customers' warehouses	20,453	18,631	21,435	10	(13)
Total U.S. pharmaceutical distribution & services	105,976	96,185	93,645	10	3
Canada pharmaceutical distribution & services	10,303	9,784	9,072	5	8
Medical-Surgical distribution & services	3,145	2,920	2,861	8	2
Total Distribution Solutions	119,424	108,889	105,578	10	3
Technology Solutions					
Services	2,594	2,483	2,439	4	2
Software & software systems	596	590	571	1	3
Hardware	120	122	114	(2)	7
Total Technology Solutions	3,310	3,195	3,124	4	2
Total Revenues	\$ 122,734	\$ 112,084	\$ 108,702	10	3

Revenues increased 10% to \$122.7 billion in 2012 and 3% to \$112.1 billion in 2011. The increase in revenues in each year primarily reflects market growth in our Distribution Solutions segment, which accounted for approximately 97% of our consolidated revenues, and our acquisition of US Oncology.

Direct distribution and services revenues increased in 2012 compared to 2011 primarily due to market growth, which includes growing drug utilization and price increases, and from our acquisition of US Oncology. These increases were partially offset by price deflation associated with brand to generic drug conversions. Direct distribution and services revenues increased in 2011 compared to 2010 primarily due to market growth, the effect of a shift of revenues from sales to customers' warehouses to direct store delivery, the lapping of which was completed in the third quarter of 2011, and due to our acquisition of US Oncology. These increases were partially offset by a decline in demand associated with the flu season and the impact of price deflation associated with brand to generic drug conversions.

Sales to customers' warehouses for 2012 increased compared to 2011 primarily due to a new customer and new business with existing customers. Sales to customers' warehouses for 2011 decreased compared to 2010 primarily reflecting reduced revenues associated with existing customers, the effect of a shift of revenues to direct store delivery, the lapping of which was completed in the third quarter of 2011, and the impact of price deflation associated with brand to generic drug conversions.

Sales to retail customers' warehouses represent large volume sales of pharmaceuticals primarily to a limited number of large self-warehousing retail chain customers whereby we order bulk product from the manufacturer, receive and process the product through our central distribution facility and subsequently deliver the bulk product (generally in the same form as received from the manufacturer) directly to our customers' warehouses. This distribution method is typically not marketed or sold by the Company as a stand-alone service; rather, it is offered as an additional distribution method for our large retail chain customers that have an internal self-warehousing distribution network. Sales to customers' warehouses provide a benefit to these customers because they can utilize the Company as one source for both their direct-to-store business and their warehouse business. We generally have significantly lower gross profit margins on sales to customers' warehouses as we pass much of the efficiency of this low cost-to-serve model on to the customer. These sales do, however, contribute to our gross profit dollars.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

The customer mix of revenues from our U.S. Pharmaceutical Distribution business was as follows:

	Years Ended March 31,		
	2012	2011	2010
Direct Sales			
Retail Chains	34%	33%	32%
Institutions	34	34	32
Independents	11	12	12
Subtotal	79	79	76
Sales to retail customers' warehouses	21	21	24
Total	100%	100%	100%

As previously described, a limited number of our large retail chain customers purchase products through both our direct and warehouse distribution methods, the latter of which generally has a significantly lower gross profit margin due to the low cost-to-serve model. When evaluating and pricing customer contracts, we do so based on our assessment of total customer profitability. As a result, we do not evaluate our performance or allocate resources based on sales to customers' warehouses or gross profit associated with such sales.

Canadian pharmaceutical distribution and services revenues increased 5% in 2012 compared to 2011. Excluding a favorable foreign currency exchange rate fluctuation of 2% during 2012, revenues increased primarily due to market growth, five additional sales days and a small acquisition in the second quarter of 2011, partially offset by government-imposed price reduction for generic pharmaceuticals in certain provinces. Canadian pharmaceutical distribution and services revenues increased 8% in 2011 compared to 2010. Excluding a favorable foreign currency exchange rate fluctuation of 7% during 2011, revenues increased 1% in 2011. Canadian revenues for 2011 increased due to market growth, offset by a government-imposed price reduction for generic pharmaceuticals in certain provinces and the impact of price deflation associated with brand to generic drug conversions.

Medical-Surgical distribution and services revenues increased in 2012 compared to 2011 primarily due to market growth, new customers and five additional sales days. Medical-Surgical distribution and services revenues increased in 2011 compared to 2010 primarily due to market growth, partially offset by a decrease in demand associated with the flu season.

Technology Solutions revenues increased in 2012 compared to 2011 primarily due to higher revenues for claims processing, increased revenues associated with the sale and installation of our software products, an increase in maintenance revenues from new and existing customers and a number of small acquisitions made during 2012. Technology Solutions revenues increased slightly in 2011 compared to 2010 primarily due to an increase in maintenance revenues from new and existing customers, increased revenues associated with the sale and installation of our software products and higher revenues for claims processing, partially offset by the sale of MAP in July 2010.

Gross Profit:

(Dollars in millions)	Years Ended March 31,			Change	
	2012	2011	2010	2012	2011
Gross Profit					
Distribution Solutions ⁽¹⁾	\$ 5,057	\$ 4,565	\$ 4,219	11%	8%
Technology Solutions ⁽²⁾	1,510	1,405	1,457	7	(4)
Total	<u>\$ 6,567</u>	<u>\$ 5,970</u>	<u>\$ 5,676</u>	10	5
Gross Profit Margin					
Distribution Solutions	4.23%	4.19%	4.00%	4bp	19bp
Technology Solutions	45.62	43.97	46.64	165	(267)
Total	5.35	5.33	5.22	2	11

⁽¹⁾ Gross profit of our Distribution Solutions segment for 2011 includes a credit of \$51 million representing our share of a settlement of an antitrust class action lawsuit brought against a drug manufacturer, which was recorded as a reduction to cost of sales.

⁽²⁾ Gross profit of our Technology Solutions segment for 2012 and 2011 includes a \$31 million product alignment charge and a \$72 million asset impairment charge for capitalized software held for sale.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Gross profit increased 10% to \$6.6 billion in 2012 and 5% to \$6.0 billion in 2011. As a percentage of revenues, gross profit increased by 2 bp in 2012 and by 11 bp in 2011. Gross profit margin increased in 2012 primarily reflecting higher gross profit margins from both of our operating segments and increased in 2011 primarily reflecting higher gross profit margin from our Distribution Solutions segment.

Distribution Solutions segment's gross profit margin increased in 2012 compared to 2011 primarily due to our acquisition of US Oncology and increased sales of higher margin generic drugs, partially offset by a decline in sell margin and the receipt of \$51 million in 2011 representing our share of a settlement of an antitrust class action lawsuit brought against a drug manufacturer.

Distribution Solutions segment's gross profit margin increased in 2011 compared to 2010 primarily due to higher buy margin, increased sales of higher margin generic drugs and due to our acquisition of US Oncology, partially offset by a decline in demand associated with the flu season and a decrease in sell margin. Our Distribution Solutions segment's 2011 gross profit margin was also favorably affected by the receipt of \$51 million representing our share of a settlement of an antitrust class action lawsuit brought against a drug manufacturer. Buy margin primarily reflects volume and timing of compensation from branded pharmaceutical manufacturers.

Our last-in, first-out ("LIFO") net inventory expense was \$11 million in 2012, \$3 million in 2011 and \$8 million for 2010. Our Distribution Solutions segment uses the LIFO method of accounting for the majority of its inventories, which results in cost of sales that more closely reflects replacement cost than under other accounting methods. The practice in the Distribution Solutions segment's distribution businesses is to pass on to customers published price changes from suppliers. Manufacturers generally provide us with price protection, which limits price-related inventory losses. Price declines on many generic pharmaceutical products in this segment over the last few years have moderated the effects of inflation in other product categories, which resulted in minimal overall price changes in those years. During 2012, we experienced a decline in deflationary trends in generic pharmaceuticals as a result of a reduction in generic product launches as compared to the prior year. Additional information regarding our LIFO accounting is included under the caption "Critical Accounting Policies and Estimates," included in this Financial Review.

Technology Solutions segment's gross profit margin increased in 2012 compared to 2011, primarily due to an increase in higher margin revenues, a \$72 million asset impairment charge related to our Horizon Enterprise ManagementTM ("HzERM") software product in 2011 and lower amortization expense related to HzERM. These increases were partially offset by product alignment charges of \$31 million in 2012.

Technology Solutions segment's gross profit margin decreased in 2011 compared to 2010 primarily due to a \$72 million asset impairment charge related to HzERM, the sale of MAP and continued investment in our clinical and enterprise revenue management solutions products, partially offset by a shift to higher margin revenue.

During the third quarter of 2012, we approved a plan to align our hospital clinical and revenue cycle healthcare software products within our Technology Solutions segment. As part of this alignment strategy, we will be converging our core clinical and revenue cycle Horizon and Paragon product lines onto Paragon's Microsoft®-based platform over time. Additionally, we have stopped development of our HzERM software product. The plan resulted in a pre-tax charge of \$51 million in 2012, of which \$31 million was recorded to cost of sales and \$20 million was recorded to operating expenses within our Technology Solutions segment. The majority of these charges were incurred in the third quarter of 2012. The pre-tax charge includes \$24 million of non-cash asset impairment charges, primarily for the write-off of prepaid licenses and commissions and capitalized internal use software that were determined to be obsolete as they would not be utilized going forward, \$10 million for severance, \$7 million for customer allowances and \$10 million for other charges.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Our capitalized software held for sale is amortized over three years. At each balance sheet date, or earlier if an indicator of an impairment exists, we evaluate the recoverability of unamortized capitalized software costs based on estimated future undiscounted revenues net of estimated related costs over the remaining amortization period. At the end of the second quarter of 2010, our HzERM software product became generally available. In October 2010, we decreased our estimated revenues over the next 24 months for our HzERM software product and, as a result, concluded that the estimated future revenues, net of estimated related costs, were insufficient to recover its carrying value. Accordingly, we recorded a \$72 million non-cash impairment charge in the second quarter of 2011 within our Technology Solutions segment's cost of sales to reduce the carrying value of the software product to its net realizable value.

Operating Expenses:

(Dollars in millions)	Years Ended March 31,			Change	
	2012	2011	2010	2012	2011
Operating Expenses					
Distribution Solutions ⁽¹⁾	\$ 2,854	\$ 2,673	\$ 2,260	7%	18%
Technology Solutions	1,151	1,108	1,077	4	3
Corporate	413	368	351	12%	5
Subtotal	4,418	4,149	3,688	6	13
Litigation Credit, Net	—	—	(20)	—	—
Total	<u>\$ 4,418</u>	<u>\$ 4,149</u>	<u>\$ 3,668</u>	6	13
Operating Expenses as a Percentage of Revenues					
Distribution Solutions	2.39%	2.45%	2.14%	(6)bp	31bp
Technology Solutions	34.77	34.68	34.48	9	20
Total	3.60	3.70	3.37	(10)	33

⁽¹⁾ Operating expenses for 2012 and 2011 include \$149 million and \$213 million of AWP litigation charges.

Operating expenses increased 6% to \$4.4 billion in 2012 and 13% to \$4.1 billion in 2011. Operating expenses include pre-tax charges of \$149 million and \$213 million in 2012 and 2011 relating to our AWP litigation and a pre-tax credit of \$20 million in 2010 relating to our securities litigation matter. Operating expenses increased in 2012 primarily due to the addition of US Oncology, higher employee compensation and benefits costs and an increase in expenses associated with supporting higher revenues, partially offset by a lower AWP litigation charge. Operating expenses increased in 2011 primarily due to the AWP litigation charge, higher costs associated with employee compensation and benefits, including our Profit Sharing Investment Plan ("PSIP"), and the acquisition of US Oncology.

The McKesson Corporation PSIP was a member of the settlement class in the Consolidated Securities Litigation Action. On April 27, 2009, the court issued an order approving the distribution of the settlement funds. On October 9, 2009, the PSIP received approximately \$119 million of the Consolidated Securities Litigation Action proceeds. Approximately \$42 million of the proceeds were attributable to the allocated shares of McKesson common stock owned by the PSIP participants during the Consolidated Securities Litigation Action class-holding period and were allocated to the respective participants on that basis in the third quarter of 2010. Approximately \$77 million of the proceeds were attributable to the unallocated shares (the "Unallocated Proceeds") of McKesson common stock owned by the PSIP in an employee stock ownership plan ("ESOP") suspense account. In accordance with the plan terms, the PSIP distributed all of the Unallocated Proceeds to current PSIP participants after the close of the plan year in April 2010. The receipt of the Unallocated Proceeds by the PSIP was reimbursement for the loss in value of the Company's common stock held by the PSIP in its ESOP suspense account during the Consolidated Securities Litigation Action class-holding period and was not a contribution made by the Company to the PSIP or ESOP. Accordingly, there were no accounting consequences to the Company's financial statements relating to the receipt of the Unallocated Proceeds by the PSIP.

As a result of the PSIP's receipt of the Unallocated Proceeds, in 2010 the Company contributed \$1 million to the PSIP. Accordingly, PSIP expense for 2010 was nominal. Commencing in 2011, the Company resumed its contributions to the PSIP.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

PSIP expense by segment for the last three years was as follows:

(In millions)	Years Ended March 31,		
	2012	2011	2010
Distribution Solutions	\$ 22	\$ 23	\$ —
Technology Solutions	30	32	1
Corporate	6	4	—
PSIP expense	<u>\$ 58</u>	<u>\$ 59</u>	<u>\$ 1</u>
Cost of sales ⁽¹⁾	\$ 17	\$ 17	\$ —
Operating expenses	41	42	1
PSIP expense	<u>\$ 58</u>	<u>\$ 59</u>	<u>\$ 1</u>

⁽¹⁾ Amounts recorded to cost of sales pertain solely to our McKesson Technology Solutions segment.

Acquisition-related expenses were primarily incurred in 2012 and 2011 to acquire and integrate US Oncology. Acquisition-related expenses are generally recorded within operating expenses. In 2011, we incurred \$25 million of bridge loan fees in connection with our acquisition of US Oncology, which were accounted as interest expense in Corporate, and we received reimbursement of post-acquisition interest expense from former shareholders of US Oncology of \$16 million, which was accounted as other income.

Acquisition-related expenses were as follows:

(In millions)	Years Ended March 31,		
	2012	2011	2010
Operating Expenses:			
Distribution Solutions	\$ 24	\$ 41	\$ —
Technology Solutions	6	—	—
Corporate	1	2	—
Total	<u>31</u>	<u>43</u>	<u>—</u>
Other Income: reimbursement of post-acquisition interest expense from former US Oncology shareholders	—	(16)	—
Interest Expense: bridge loan fees	—	25	—
Total Acquisition-related Expenses	<u>\$ 31</u>	<u>\$ 52</u>	<u>\$ —</u>

Amortization expense of acquired intangible assets purchased in connection with acquisitions (“acquisition-related amortization”) increased by \$59 million to \$191 million in 2012 and by \$11 million to \$132 million in 2011 compared to same periods a year ago. The increases were primarily due to our acquisition of US Oncology.

Acquisition-related amortization was as follows:

(In millions)	Years Ended March 31,		
	2012	2011	2010
Cost of Sales:			
Distribution Solutions	\$ 1	\$ —	\$ 1
Technology Solutions	19	16	20
Total	<u>20</u>	<u>16</u>	<u>21</u>
Operating Expenses:			
Distribution Solutions	120	70	53
Technology Solutions	51	46	47
Total	<u>171</u>	<u>116</u>	<u>100</u>
Total Acquisition-related Amortization	<u>\$ 191</u>	<u>\$ 132</u>	<u>\$ 121</u>

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Distribution Solutions segment's operating expenses increased in 2012 compared to 2011 primarily reflecting the addition of US Oncology, higher employee compensation and benefits expenses and an increase in expenses associated with supporting higher revenues, partially offset by a lower AWP litigation charge. Operating expenses as a percentage of revenues decreased in 2012 compared to 2011 primarily due to operating leverage, partially offset by the addition of US Oncology.

Distribution Solutions segment's operating expenses and operating expenses as a percentage of revenues increased in 2011 compared to 2010 primarily due to the AWP litigation charge of \$213 million in 2011, higher employee compensation and benefits expenses, including PSIP expenses, the addition of US Oncology and changes in foreign currency exchange rates.

The Company has a reserve relating to AWP public entity claims, which is reviewed at least quarterly and whenever events or circumstances indicate changes, including consideration of the pace and progress of discussions relating to potentially resolving other public entity claims. Pre-tax charges relating to changes in the Company's AWP litigation reserve, including accrued interest, are recorded in the Distribution Solutions segment. The Company's AWP litigation reserve is included in other current liabilities in the consolidated balance sheets. In view of the number of outstanding cases and expected future claims, and the uncertainties of the timing and outcome of this type of litigation, it is possible that the ultimate costs of these matters may exceed or be less than the reserve.

The following is the activity related to the AWP litigation reserve for the years ended March 31, 2012, 2011 and 2010:

<i>(In millions)</i>	Years Ended March 31,		
	2012	2011	2010
AWP litigation reserve at beginning of period	\$ 330	\$ 143	\$ 143
Charges incurred	149	213	—
Payments made	(26)	(26)	—
AWP litigation reserve at end of period	\$ 453	\$ 330	\$ 143

The charges for 2012 primarily related to the Douglas County, Kansas Action settlement and the state and federal Medicaid claims. The charges for 2011 primarily related to state and federal Medicaid claims.

On April 3, 2012, the Company entered into a settlement agreement with the United States Department of Justice to resolve the federal share of Medicaid claims related to AWP. The total settlement amount of \$191 million, which includes interest, was paid on April 9, 2012.

Refer to Financial Note 19, "Other Commitments and Contingent Liabilities," to the consolidated financial statements appearing in this Annual Report on Form 10-K for further information.

Technology Solutions segment's operating expenses and operating expenses as a percentage of revenues increased in 2012 compared to 2011 primarily due to continued investment in research and development activities, a number of small acquisitions in 2012 and a charge of \$20 million for a product alignment plan. These increases were partially offset by cost containment efforts. Technology Solutions segment's operating expenses and operating expenses as a percentage of revenues increased in 2011 compared to 2010 primarily due to our increased investment in research and development activities and higher employee compensation and benefit costs, which includes PSIP expense, partially offset by the sale of MAP in the second quarter of 2011.

Corporate expenses for 2012 increased compared to 2011 primarily due to higher employee compensation and benefits expenses and a charitable contribution. Corporate expenses for 2011 increased compared to 2010 primarily due to higher compensation and benefits costs and an asset impairment charge for certain tangible property. These increases were partially offset by lower fees associated with our accounts receivable facility. As a result of our adoption of a new accounting standard for transfers of financial assets on April 1, 2010, fees associated with our accounts receivable sales facility are recorded in interest expense. Prior to 2011, these fees were recorded in Corporate administrative expenses.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Other Income, Net:

<i>(Dollars in millions)</i>	Years Ended March 31,			Change	
	2012	2011	2010	2012	2011
Other Income, Net					
Distribution Solutions	\$ 16	\$ 5	\$ 29	220%	(83)%
Technology Solutions	5	4	5	25	(20)
Corporate	—	27	9	(100)	200
Total	\$ 21	\$ 36	\$ 43	(42)	(16)

In 2011, other income, net included the receipt of \$16 million representing the reimbursement of post-acquisition interest expense by the former shareholders of US Oncology, which is recorded in Corporate. In 2010, other income, net included a \$17 million pre-tax gain (\$14 million after-tax) from the sale of our 50% equity interest in MLS. The gain on sale of our investment in MLS was recorded within our Distribution Solutions segment.

Segment Operating Profit and Corporate Expenses:

<i>(Dollars in millions)</i>	Years Ended March 31,			Change	
	2012	2011	2010	2012	2011
Segment Operating Profit ⁽¹⁾					
Distribution Solutions ⁽²⁾	\$ 2,219	\$ 1,897	\$ 1,988	17%	(5)%
Technology Solutions	364	301	385	21	(22)
Subtotal	2,583	2,198	2,373	18	(7)
Corporate Expenses, Net	(413)	(341)	(342)	21	—
Litigation Credit, Net	—	—	20	—	—
Interest Expense	(251)	(222)	(187)	13	19
Income from Continuing Operations Before Income Taxes	\$ 1,919	\$ 1,635	\$ 1,864	17	(12)
Segment Operating Profit Margin					
Distribution Solutions	1.86%	1.74%	1.88%	12bp	(14)bp
Technology Solutions	11.00	9.42	12.32	158	(290)

(1) Segment operating profit includes gross profit, net of operating expenses, plus other income, net for our two operating segments.

(2) Operating expenses for 2012 and 2011 for our Distribution Solutions segment included \$149 million and \$213 million of AWP litigation charges.

Operating profit margin for our Distribution Solutions segment increased in 2012 compared to 2011 primarily due to higher gross profit margin, which included a full year of results from US Oncology, and lower operating expenses as a percentage of revenues, which included a lower AWP litigation charge. Operating profit margin for our Distribution Solutions segment decreased in 2011 compared to 2010 primarily due to higher operating expenses as a percentage of revenue, including a \$213 million AWP litigation charge, partially offset by a higher gross profit margin, which included the receipt of \$51 million representing our share of an antitrust class action lawsuit brought against a drug manufacturer.

Operating profit margin in our Technology Solutions segment increased in 2012 compared to 2011 primarily reflecting an increase in gross profit margin, partially offset by an increase in operating expenses as a percentage of revenues. Operating profit margin in our Technology Solutions segment decreased in 2011 compared to 2010 primarily reflecting a decrease in gross profit margin, which included the \$72 million asset impairment charge, and an increase in operating expenses as a percentage of revenues.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Corporate expenses, net of other income increased in 2012 compared to 2011 primarily due an increase in operating expenses and a decrease in other income. Corporate expenses, net of other income were flat in 2011 compared to 2010 primarily due to an increase in operating expenses, which were offset by an increase in other income.

Litigation Credit, Net: In 2010, we recorded a net credit of \$20 million relating to settlements for a securities litigation.

Interest Expense: Interest expense increased in 2012 compared to 2011 primarily due to the \$1.7 billion of long-term debt issued in February 2011 in connection with our acquisition of US Oncology. Interest expense increased in 2011 compared to 2010 primarily due to \$25 million of bridge loan fees related to the acquisition of US Oncology, interest expense associated with the assumed debt and the subsequent refinancing of the debt, and fees from our accounts receivable sales facility, which are recorded in interest expense commencing in 2011. These increases were partially offset by lower interest expense due to the repayment of \$215 million of our long-term debt in March 2010. Refer to our discussion under the caption "Credit Resources" within this Financial Review for additional information regarding our financing activities.

Income Taxes: Our reported income tax rates were 26.9%, 30.9% and 32.2% in 2012, 2011 and 2010. Fluctuations in our reported income tax rates are primarily due to changes within our business mix, including varying proportions of income attributable to foreign countries that have lower income tax rates. In addition, in 2012, 2011 and 2010, income tax expense included \$66 million, \$34 million and \$7 million of net income tax benefits for discrete items, which primarily relates to the recognition of previously unrecognized tax benefits and accrued interest. Included in the 2012 discrete tax benefit, is a \$31 million credit to income tax expense as a result of the reversal of an income tax reserve relating to our AWP litigation.

We have received tax assessments of \$98 million from the U.S. Internal Revenue Service ("IRS") relating to 2003 through 2006. We disagree with a substantial portion of the tax assessments primarily relating to transfer pricing. We are pursuing administrative relief through the appeals process and an opening conference has been scheduled for May 15, 2012. We have received assessments from the Canada Revenue Agency ("CRA") for a total of \$169 million related to transfer pricing for 2003 through 2007. Payments of most of the assessments to the CRA have been made to stop the accrual of interest. We have appealed the assessment for 2003 to the Tax Court of Canada and have filed a notice of objection for 2004 through 2007. The trial between McKesson Canada Corporation and the CRA, argued in the Tax Court of Canada, concluded in early February 2012, and we are waiting for the decision. We continue to believe in the merits of our tax positions and that we have adequately provided for any potential adverse results relating to these examinations in our financial statements. However, the final resolution of these issues could result in an increase or decrease to income tax expense.

Discontinued Operation: In July 2010, our Technology Solutions segment sold its wholly-owned subsidiary, MAP, a provider of phone and web-based healthcare services in Australia and New Zealand, for net sales proceeds of \$109 million. The divestiture generated a pre-tax and after-tax gain of \$95 million and \$72 million. As a result of the sale, we were able to utilize capital loss carry-forwards for which we previously recorded a valuation allowance of \$15 million. The release of the valuation allowance is included as a tax benefit in our after-tax gain on the divestiture. The after-tax gain on disposition was recorded as a discontinued operation in our consolidated statement of operations in 2011. The historical financial operating results and net assets of MAP were not material to our consolidated financial statements for all periods presented.

Net Income: Net income was \$1,403 million, \$1,202 million and \$1,263 million in 2012, 2011 and 2010 and diluted earnings per common share were \$5.59, \$4.57 and \$4.62. Net income and diluted earnings per common share for 2012 and 2011 include after-tax AWP litigation charges of \$60 million and \$149 million, or \$0.24 and \$0.57 per diluted common share. Net income and diluted earnings per common share for 2010 include an after-tax securities litigation credit of \$12 million, or \$0.04 per diluted common share. Net income and diluted earnings per common share for 2011 also included an after-tax gain of \$72 million, or \$0.28 per diluted share relating to our sale of MAP.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Weighted Average Diluted Common Shares Outstanding: Diluted earnings per common share was calculated based on a weighted average number of shares outstanding of 251 million, 263 million and 273 million for 2012, 2011 and 2010. The decreases in the number of weighted average diluted common shares outstanding primarily reflect the cumulative effect of share repurchases over the past three years, partially offset by the exercise and settlement of share-based awards.

International Operations

International operations accounted for 8.6%, 8.9% and 8.6% of 2012, 2011 and 2010 consolidated revenues. International operations are subject to certain risks, including currency fluctuations. We monitor our operations and adopt strategies responsive to changes in the economic and political environment in each of the countries in which we operate. Additional information regarding our international operations is also included in Financial Note 22, "Segments of Business," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Business Combinations

On December 30, 2010, we acquired all of the outstanding shares of US Oncology for approximately \$2.1 billion, consisting of cash consideration of \$0.2 billion, net of cash acquired, and the assumption of liabilities with a fair value of \$1.9 billion. The cash paid at acquisition was funded from cash on hand. As an integrated oncology company, US Oncology is affiliated with community-based oncologists, and works with patients, hospitals, payers and the medical industry across all phases of the cancer research and delivery continuum. The acquisition of US Oncology expands our existing specialty pharmaceutical distribution business and adds practice management services for oncologists. Financial results for US Oncology have been included in the results of operations within our Distribution Solutions segment beginning in the fourth quarter of 2011.

On March 25, 2012, we acquired substantially all of the assets of Drug Trading Company Limited, the independent banner business of the Katz Group Canada Inc. ("Katz Group"), and Medicine Shoppe Canada Inc., the franchise business of the Katz Group (collectively, "Katz Assets") for approximately \$919 million, net of cash acquired. The total purchase price is subject to change due to working capital adjustments within 60 days of closing. The cash paid at acquisition was funded from cash on hand. The acquisition of the assets from the Drug Trading Company Limited consists of a marketing and purchasing arm of more than 850 independently owned pharmacies in Canada. The acquisition of Medicine Shoppe Canada Inc. consists of the franchise business of providing services to more than 160 independent pharmacies in Canada. Financial results for this acquisition were not included in the results of operations for 2012 as they were not material. These results will be included in the results of operations within our Canadian pharmaceutical distribution and services, which is part of our Distribution Solutions segment, beginning in the first quarter of 2013.

In April 2012, we purchased the remaining 50% interest in our corporate headquarters building located in San Francisco, California, for total cash of \$90 million. The cash paid was funded from cash on hand. We previously held a 50% ownership interest and are the primary tenant in this building. This transaction will be accounted for as a step acquisition, which requires that we re-measure our previously held 50% interest to fair value and record the difference between the fair value and carrying value as a gain in the consolidated statements of operations. The re-measurement to fair value is anticipated to result in a pre-tax gain of approximately \$75 million (\$46 million after-tax). The pre-tax gain will be recorded within Corporate in the consolidated statements of operations during the quarter ending June 30, 2012.

During the last three years, we also completed a number of other smaller acquisitions within both of our operating segments. Financial results for our business acquisitions have been included in our consolidated financial statements since their respective acquisition dates. Purchase prices for our business acquisitions have been allocated based on estimated fair values at the date of acquisition.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Goodwill recognized for our business acquisitions is generally not expected to be deductible for tax purposes. However, if we acquire the assets of a company, the goodwill may be deductible for tax purposes. The pro forma results of operations for our business acquisitions and the results of operations for these acquisitions since the acquisition date have not been presented because the effects were not material to the consolidated financial statements on either an individual or an aggregate basis. Refer to Financial Notes 2 and 12, “Business Combinations” and “Debt and Financing Activities,” to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information.

2013 Outlook

Information regarding the Company’s 2013 outlook is contained in our Form 8-K dated April 30, 2012. This Form 8-K should be read in conjunction with the sections Item 1 – Business – Forward-Looking Statements and Item 1A – Risk Factors in Part 1 of this Annual Report on Form 10-K.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)****CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

We consider an accounting estimate to be critical if the estimate requires us to make assumptions about matters that were uncertain at the time the accounting estimate was made and if different estimates that we reasonably could have used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on our financial condition or results from operations. Below are the estimates that we believe are critical to the understanding of our operating results and financial condition. Other accounting policies are described in Financial Note 1, "Significant Accounting Policies," to the consolidated financial statements appearing in this Annual Report on Form 10-K. Because of the uncertainty inherent in such estimates, actual results may differ from these estimates.

Allowance for Doubtful Accounts: We provide short-term credit and other customer financing arrangements to customers who purchase our products and services. Other customer financing primarily relates to guarantees provided to our customers, or their creditors, regarding the repurchase of inventories. We also provide financing to certain customers related to the purchase of pharmacies, which serve as collateral for the loans. We estimate the receivables for which we do not expect full collection based on historical collection rates and specific knowledge regarding the current creditworthiness of our customers and record an allowance in our consolidated financial statements for these amounts.

In determining the appropriate allowance for doubtful accounts, which includes portfolio and specific reserves, the Company reviews accounts receivable aging, industry trends, customer financial strength, credit standing, historical write-off trends and payment history to assess the probability of collection. If the frequency and severity of customer defaults due to our customers' financial condition or general economic conditions change, our allowance for uncollectible accounts may require adjustment. As a result, we continuously monitor outstanding receivables and other customer financing and adjust allowances for accounts where collection may be in doubt. During 2012, sales to our ten largest customers accounted for approximately 52% of our total consolidated revenues. Sales to our two largest customers, CVS Caremark Corporation ("CVS") and Rite Aid Corporation ("Rite Aid"), accounted for approximately 16% and 10% of our total consolidated revenues. At March 31, 2012, accounts receivable from our ten largest customers were approximately 49% of total accounts receivable. Accounts receivable from CVS, Wal-Mart Stores, Inc. ("Walmart") and Rite Aid were approximately 17%, 10% and 9% of total accounts receivable. As a result, our sales and credit concentration is significant. A default in payments, a material reduction in purchases from these, or any other large customer or the loss of a large customer could have a material adverse impact on our financial condition, results of operations and liquidity.

Reserve methodologies are assessed annually based on historical losses and economic, business and market trends. In addition, reserves are reviewed quarterly and updated if unusual circumstances or trends are present. We believe the reserves maintained and expenses recorded in 2012 are appropriate and consistent with historical methodologies employed. At this time, we are not aware of any internal process or customer issues that might lead to a significant increase in the foreseeable future in our allowance for doubtful accounts as a percentage of net revenue.

At March 31, 2012, trade and notes receivables were \$8,735 million prior to allowances of \$111 million. In 2012, 2011 and 2010 our provision for bad debts was \$30 million, \$18 million and \$17 million. At March 31, 2012 and 2011, the allowance as a percentage of trade and notes receivables was 1.3% and 1.5%. An increase or decrease of a hypothetical 0.1% in the 2012 allowance as a percentage of trade and notes receivables would result in an increase or decrease in the provision for bad debts of approximately \$9 million. The selected 0.1% hypothetical change does not reflect what could be considered the best or worst case scenarios. Additional information concerning our allowance for doubtful accounts may be found in Schedule II included in this Annual Report on Form 10-K.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Inventories: We report inventories at the lower of cost or market (“LCM”). Inventories for our Distribution Solutions segment consist of merchandise held for resale. For our Distribution Solutions segment, the majority of the cost of domestic inventories is determined using the LIFO method and the cost of Canadian inventories is determined using the first-in, first-out (“FIFO”) method. Technology Solutions segment inventories consist of computer hardware with cost generally determined by the standard cost method, which approximates average cost. Rebates, fees, cash discounts, allowances, chargebacks and other incentives received from vendors are generally accounted for as a reduction in the cost of inventory and are recognized when the inventory is sold. Total inventories were \$10.1 billion and \$9.2 billion at March 31, 2012 and 2011.

The LIFO method was used to value approximately 88% and 87% of our inventories at March 31, 2012 and 2011. At March 31, 2012 and 2011, our LIFO reserves, net of LCM adjustments, were \$107 million and \$96 million. LIFO reserves include both pharmaceutical and non-pharmaceutical products. In 2012, 2011 and 2010, we recognized net LIFO expense of \$11 million, \$3 million and \$8 million within our consolidated statements of operations, which related to our non-pharmaceutical products. A LIFO expense is recognized when the net effect of price increases on branded pharmaceuticals and non-pharmaceutical products held in inventory exceeds the impact of price declines and shifts towards generic pharmaceuticals, including the effect of branded pharmaceutical products that have lost market exclusivity. A LIFO credit is recognized when the net effect of price declines and shifts towards generic pharmaceuticals exceeds the impact of price increases on branded pharmaceuticals and non-pharmaceutical products held in inventory.

We believe that the average cost or FIFO inventory costing method provides a reasonable estimation of the current cost of replacing inventory (*i.e.*, “market”). As such, our LIFO inventory is valued at the lower of LIFO or market. Primarily due to continued net deflation in generic pharmaceutical inventories, pharmaceutical inventories at LIFO were \$76 million and \$156 million higher than market as of March 31, 2012 and 2011. As a result, we recorded a LCM credit of \$80 million in 2012 and a LCM charge of \$44 million in 2011 within our consolidated statements of operations to adjust our LIFO inventories to market. During 2012, we experienced a decline in deflationary trends in generic pharmaceuticals as a result of a reduction in generic product launches as compared to the prior year.

In determining whether inventory valuation issues exist, we consider various factors including estimated quantities of slow-moving inventory by reviewing on-hand quantities, outstanding purchase obligations and forecasted sales. Shifts in market trends and conditions, changes in customer preferences due to the introduction of generic drugs or new pharmaceutical products or the loss of one or more significant customers are factors that could affect the value of our inventories. We write down inventories, which are considered excess and obsolete, as a result of these reviews. These factors could make our estimates of inventory valuation differ from actual results.

Business Combinations: We account for acquired businesses using the acquisition method of accounting, which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Acquisition-related expenses and related restructuring costs are expensed as incurred.

Several methods may be used to determine the fair value of assets acquired and liabilities assumed. For intangible assets, we typically use the income method. This method starts with a forecast of all of the expected future net cash flows for each asset. These cash flows are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. Some of the more significant estimates and assumptions inherent in the income method or other methods include the amount and timing of projected future cash flows, the discount rate selected to measure the risks inherent in the future cash flows and the assessment of the asset’s life cycle and the competitive trends impacting the asset, including consideration of any technical, legal, regulatory, or economic barriers to entry. Determining the useful life of an intangible asset also requires judgment as different types of intangible assets will have different useful lives and certain assets may even be considered to have indefinite useful lives. Refer to Financial Note 2, “Business Combinations,” to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information regarding our acquisitions.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Goodwill: As a result of acquiring businesses, we have \$5,032 million and \$4,364 million of goodwill at March 31, 2012 and 2011. We maintain goodwill assets on our books unless the assets are considered to be impaired. We perform an impairment test on goodwill balances annually in the fourth quarter or more frequently if indicators for potential impairment exist. Indicators that are considered include significant changes in performance relative to expected operating results, significant changes in the use of the assets, significant negative industry or economic trends, or a significant decline in the Company's stock price and/or market capitalization for a sustained period of time.

Impairment testing is conducted at the reporting unit level, which is generally defined as a component – one level below our Distribution Solutions and Technology Solutions operating segments, for which discrete financial information is available and segment management regularly reviews the operating results of that unit. Components that have essentially similar operations, products, services and customers are aggregated as a single reporting unit. Management judgment is involved in determining which components may be combined and changes in these combinations could affect the outcome of the testing.

Impairment tests require that we compare the carrying value of net assets to the estimated fair value of net assets for the reporting units. Goodwill is reviewed for impairment utilizing either a qualitative or quantitative assessment. If we decide that it is appropriate to perform a qualitative assessment and conclude that the fair value of a reporting unit more likely than not exceeds its carrying value, no further evaluation is necessary. For reporting units where we perform a quantitative assessment, the fair values can be determined using the market, income or cost approach. To estimate the fair value of our reporting units, we use a combination of the market approach and the income approach. Under the market approach, we estimate fair value by comparing the business to similar businesses, or guideline companies whose securities are actively traded in public markets. Under the income approach, we use a discounted cash flow model in which cash flows anticipated over several periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate rate of return. In addition, we compare the aggregate fair value of our reporting units to our market capitalization as further corroboration of the fair value.

Some of the more significant estimates and assumptions inherent in the goodwill impairment estimation process using the market approach include the selection of appropriate guideline companies, the determination of market value multiples for both the guideline companies and the reporting unit, the determination of applicable premiums and discounts based on any differences in marketability between the business and the guideline companies and for the income approach, the required rate of return used in the discounted cash flow method, which reflects capital market conditions and the specific risks associated with the business. Other estimates inherent in both the market and income approaches include long-term growth rates, projected revenues and earnings and cash flow forecasts for the reporting units.

Estimates of fair value result from a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions at a point in time. The judgments made in determining an estimate of fair value may materially impact our results of operations. The valuations are based on information available as of the impairment review date and are based on expectations and assumptions that have been deemed reasonable by management. Any changes in key assumptions, including failure to meet business plans, a further deterioration in the market or other unanticipated events and circumstances, may affect the accuracy or validity of such estimates and could potentially result in an impairment charge.

In 2012, 2011 and 2010, we concluded that there were no impairments of goodwill as the fair value of each reporting unit exceeded its carrying value.

Supplier Incentives: Fees for service and other incentives received from suppliers, relating to the purchase or distribution of inventory, are generally reported as a reduction to cost of goods sold. We consider these fees and other incentives to represent product discounts and as a result, the amounts are recorded as a reduction of product cost and are recognized through cost of goods sold upon the sale of the related inventory.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Supplier Reserves: We establish reserves against amounts due from suppliers relating to various price and rebate incentives, including deductions or billings taken against payments otherwise due to them. These reserve estimates are established based on judgment after considering the status of current outstanding claims, historical experience with the suppliers, the specific incentive programs and any other pertinent information available. We evaluate the amounts due from suppliers on a continual basis and adjust the reserve estimates when appropriate based on changes in factual circumstances. As of March 31, 2012 and 2011, supplier reserves were \$115 million and \$102 million. The ultimate outcome of any outstanding claims may be different from our estimate. All of the supplier reserves at March 31, 2012 and 2011 pertain to our Distribution Solutions segment. An increase or decrease in the supplier reserve as a hypothetical 0.1% of trade payables at March 31, 2012 would result in an increase or decrease in the cost of sales of approximately \$16 million in 2012. The selected 0.1% hypothetical change does not reflect what could be considered the best or worst case scenarios.

Income Taxes: Our income tax expense and deferred tax assets and liabilities reflect management's best assessment of estimated current and future taxes to be paid. We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax provision and in evaluating income tax uncertainties. We review our tax positions at the end of each quarter and adjust the balances as new information becomes available.

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets, we consider all available positive and negative evidence including our past operating results, the existence of cumulative net operating losses in the most recent years and our forecast of future taxable income. In estimating future taxable income, we develop assumptions including the amount of future federal, state and foreign pre-tax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we use to manage the underlying businesses. We had deferred income tax assets (net of valuation allowances) of \$1,335 million and \$1,297 million at March 31, 2012 and 2011 and deferred tax liabilities of \$2,495 million and \$2,261 million. Deferred tax assets primarily consist of net loss and credit carryforwards and timing differences on our compensation and benefit related accruals. Deferred tax liabilities primarily consist of basis differences for inventory valuation (including inventory valued at LIFO) and other assets. We established valuation allowances of \$101 million and \$99 million for 2012 and 2011 against certain deferred tax assets, which primarily relate to federal, state and foreign loss carryforwards for which the ultimate realization of future benefits is uncertain. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. Should tax laws change, including those laws pertaining to LIFO, our cash flows could be materially impacted.

If our assumptions and estimates described above were to change, an increase/decrease of 1% in our effective tax rate as applied to income from continuing operations would have increased/decreased tax expense by approximately \$19 million, or \$0.08 per diluted share, for 2012.

Share-Based Compensation: Our compensation programs include share-based compensation. We account for all share-based compensation transactions using a fair-value based measurement method. The share-based compensation expense, for the portion of the awards that is ultimately expected to vest, is recognized on a straight-line basis over the requisite service period for those awards with graded vesting and service conditions. For awards with performance conditions and multiple vest dates, we recognize the expense on a graded vesting basis. For awards with performance conditions and a single vest date, we recognize the expense on a straight-line basis.

We estimate the grant-date fair value of employee stock options using the Black-Scholes options-pricing model. Our estimates of employee stock option values rely on estimates of factors we input into the model. The key factors involve an estimate of future uncertain events. The key factors influencing the estimation process, among others, are the expected life of the option, the expected stock price volatility and the expected dividend yield. In determining the expected life of the option, we primarily use historical experience as our best estimate of future exercise patterns. We use a combination of historical and implied market volatility to determine the expected stock price volatility factor. We believe that this market-based input provides a better estimate of our future stock price movements and is consistent with employee stock option valuation considerations. Once the fair values of employee stock options are determined, current accounting practices do not permit them to be changed, even if the estimates used are different from actual experience.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

In addition, we develop an estimate of the number of share-based awards, which will ultimately vest primarily based on historical experience. Changes in the estimated forfeiture rate can have a material effect on share-based compensation expense. If the actual forfeiture rate materially differs from the estimated forfeiture rate, then an adjustment is made to revise the estimated forfeiture rate, which will result in an increase or decrease to the expense recognized in the financial statements. We re-assess the estimated forfeiture rate established upon grant periodically throughout the requisite service period. As required, the forfeiture estimates will be adjusted to reflect actual forfeitures when an award vests. The actual forfeitures in future reporting periods could be materially higher or lower than our current estimates.

Our assessments of estimated share-based compensation charges are affected by our stock price as well as assumptions regarding a number of complex and subjective variables and the related tax impact. These variables include the volatility of our stock price, employee stock option exercise behavior, timing, number and types of annual share-based awards and the attainment of performance goals. As a result, the future share-based compensation expense may differ from the Company's historical amounts.

Loss Contingencies: We are subject to various claims, other pending and potential legal actions for damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of our business. When a loss is considered probable and reasonably estimable, we record a liability in the amount of our best estimate for the ultimate loss. However, the likelihood of a loss with respect to a particular contingency is often difficult to predict and determining a meaningful estimate of the loss or a range of loss may not be practicable based on the information available and the potential effect of future events and decisions by third parties that will determine the ultimate resolution of the contingency. Moreover, it is not uncommon for such matters to be resolved over many years, during which time relevant developments and new information must be reevaluated at least quarterly to determine both the likelihood of potential loss and whether it is possible to reasonably estimate a range of possible loss. When a loss is probable but a reasonable estimate cannot be made, disclosure of the proceeding is provided.

Disclosure also is provided when it is reasonably possible that a loss will be incurred or when it is reasonably possible that the amount of a loss will exceed the recorded provision. We review all contingencies at least quarterly to determine whether the likelihood of loss has changed and to assess whether a reasonable estimate of the loss or range of the loss can be made. As discussed above, development of a meaningful estimate of loss or a range of potential loss is complex when the outcome is directly dependent on negotiations with or decisions by third parties, such as regulatory agencies, the court system and other interested parties. Such factors bear directly on whether it is possible to reasonably estimate a range of potential loss and boundaries of high and low estimate.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

We expect our available cash generated from operations, together with our existing sources of liquidity from our accounts receivable sales facility and short-term borrowings under the revolving credit facility and commercial paper, will be sufficient to fund our long-term and short-term capital expenditures, working capital and other cash requirements. In addition, from time-to-time, we may access the long-term debt capital markets to discharge our other liabilities.

Net cash flow from operating activities was \$2,950 million in 2012 compared to \$2,338 million in 2011 and \$2,316 million in 2010. Operating activities for 2012 reflect an increase in drafts and accounts payable primarily associated with longer payment terms for certain purchases, partially offset by an increase in receivables and higher inventories primarily associated with revenue growth.

Operating activities for 2011 reflect an increase in receivables primarily associated with revenue growth, partially offset by improved management of inventories and longer payment terms for certain purchases.

Operating activities for 2010 were primarily affected by improved management of drafts and accounts payable, partially offset by an increase in inventories due to our revenue growth and the AWP litigation private payer settlement payments of \$350 million.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

Cash flows from operations can be significantly impacted by factors such as the timing of receipts from customers and payments to vendors.

Net cash used in investing activities was \$1,502 million in 2012 compared to \$624 million in 2011 and \$309 million in 2010. Investing activities for 2012 included \$1,156 million of cash payments for acquisitions, including \$919 million for our acquisition of the Katz Assets. Investing activities in 2012 also included \$225 million and \$178 million in capital expenditures for property acquisitions and capitalized software.

Investing activities for 2011 included \$292 million of cash payments for acquisitions, including \$244 million for our acquisition of US Oncology, and \$109 million of cash received from the sale of MAP. Investing activities in 2011 also included \$233 million and \$155 million in capital expenditures for property acquisitions and capitalized software. Investing activities for 2010 included \$199 million and \$179 million in capital expenditures for property acquisitions and capitalized software and the release of \$55 million of restricted cash from escrow related to the AWP private litigation settlement payments.

Financing activities utilized cash of \$1,905 million in 2012 compared to \$1,841 million in 2011 and \$421 million in 2010. Financing activities for 2012 included \$1,850 million of cash paid for share repurchases, \$400 million of cash paid on the maturity of our 7.75% Notes in February 2012, \$195 million of dividends paid, \$400 million of cash receipts from secured borrowings and \$167 million of cash receipts from employees' exercises of stock options.

Financing activities for 2011 reflect \$1,689 million of cash received from the issuance of long-term debt. In February 2011, we issued \$600 million of 3.25% notes due 2016, \$600 million of 4.75% notes due 2021, and \$500 million of 6.00% notes due 2041. Net proceeds from the issuance of the long-term notes, after discounts and offering expenses, were used to pay off the \$1,730 million of debt assumed as part of the acquisition of US Oncology. Also as part of our acquisition of US Oncology, we borrowed \$1,000 million for bridge financing which was fully repaid by February 2011. Financing activities for 2011 also included \$2,050 million of cash paid for share repurchases, \$171 million of cash paid for dividends and \$367 million of cash receipts from employees' exercises of stock options.

Financing activities for 2010 included \$323 million of cash paid for share repurchases and \$218 million of cash paid on our long-term debt, which primarily consisted of \$215 million paid on the maturity of our 9.13% Series C Senior Notes in March 2010, \$131 million of cash paid for dividends and \$212 million of cash receipts from employees' exercises of stock options.

The Company's Board has authorized the repurchase of McKesson's common stock from time-to-time in open market transactions, privately negotiated transactions, through accelerated share repurchase ("ASR") programs, or by any combination of such methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations and other market and economic conditions.

The Board authorized the repurchase of the Company's common stock as follows: \$1.0 billion in April 2010, \$1.0 billion in October 2010, \$1.0 billion in April 2011 and \$650 million in January 2012.

Total share repurchases transacted through ASR programs and open market transactions over the last three years were as follows:

<i>(In millions, except per share data)</i>	Years Ended March 31,		
	2012	2011	2010
Number of shares repurchased ⁽¹⁾	20	29	8
Average price paid per share	\$ 83.47	\$ 69.62	\$ 41.47
Total value of shares repurchased	\$ 1,850	\$ 2,032	\$ 299

⁽¹⁾ Excludes shares surrendered for tax withholding.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)**

In 2012 and 2011, the majority of our share repurchases were transacted through a number of ASR programs with third party financial institutions as follows: \$1.0 billion in May 2010, \$275 million in March 2011, \$650 million in May 2011 and \$1.2 billion in March 2012. In 2010, all of our share repurchases were conducted through open market transactions. All programs were funded with cash on hand.

In March 2012, we entered into an ASR program with a third party financial institution to repurchase \$1.2 billion of the Company's common stock. As of March 31, 2012, we had received 12 million shares representing the minimum number of shares due under this program, and the average price paid per share of \$87.19 was based on the average daily volume-weighted average price of our common stock less a discount calculated as of March 31, 2012. The total number of shares to be ultimately repurchased by us and the final settlement price per share will be determined at the completion of this program based on the average daily volume-weighted average price of our common stock during the program, less a discount. This program is anticipated to be completed no later than the second quarter of 2013.

In April 2012, the Board authorized the repurchase of an additional \$700 million of the Company's common stock, bringing the total authorization outstanding to \$1.0 billion.

Although we believe that our operating cash flow, financial assets, current access to capital and credit markets, including our existing credit and sales facilities, will give us the ability to meet our financing needs for the foreseeable future, there can be no assurance that continued or increased volatility and disruption in the global capital and credit markets will not impair our liquidity or increase our costs of borrowing.

Selected Measures of Liquidity and Capital Resources:

<i>(Dollars in millions)</i>	March 31,		
	2012	2011	2010
Cash and cash equivalents	\$ 3,149	\$ 3,612	\$ 3,731
Working capital	1,917	3,631	4,492
Debt, net of cash and cash equivalents	831	392	(1,434)
Debt to capital ratio ⁽¹⁾	36.8%	35.7%	23.4%
Net debt to net capital employed ⁽²⁾	10.8%	5.1%	(23.5)%
Return on stockholders' equity ⁽³⁾	19.7%	16.9%	18.7%

⁽¹⁾ Ratio is computed as total debt divided by the sum of total debt and stockholders' equity.

⁽²⁾ Ratio is computed as total debt, net of cash and cash equivalents ("net debt"), divided by the sum of net debt and stockholders' equity ("net capital employed").

⁽³⁾ Ratio is computed as net income for the last four quarters, divided by a five-quarter average of stockholders' equity.

Our cash and equivalents balance as of March 31, 2012 included approximately \$1.4 billion of cash held by our subsidiaries outside of the United States. Our primary intent is to utilize this cash in the foreign operations as well as to fund certain research and development activities for an indefinite period of time. Although the vast majority of cash held outside the United States is available for repatriation, doing so could subject us to U.S. federal, state and local income tax. During the fourth quarter of 2011 and pursuant to IRS regulations, we temporarily borrowed and repaid \$1.0 billion of cash held by our subsidiaries outside the United States. The duration of this temporary loan to the United States was less than 60 days.

Working capital primarily includes cash and cash equivalents, receivables and inventories, net of drafts and accounts payable, deferred revenue and other current liabilities. Our Distribution Solutions segment requires a substantial investment in working capital that is susceptible to large variations during the year as a result of inventory purchase patterns and seasonal demands. Inventory purchase activity is a function of sales activity and other requirements.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Consolidated working capital decreased at March 31, 2012 compared to March 31, 2011 primarily due to increases in drafts and accounts payable and other accrued liabilities, partially offset by increases in receivables and inventories. Consolidated working capital decreased at March 31, 2011 compared to March 31, 2010, primarily due to increases in drafts and accounts payables, other accrued liabilities and the current portion of long-term debt, partially offset by an increase in receivables.

Our ratio of net debt to net capital employed increased at March 31, 2012 compared to March 31, 2011 primarily due to a lower cash and cash equivalents balance. Our ratio of net debt to net capital employed increased at March 31, 2011 compared to March 31, 2010 primarily due to an increase in total debt as a result of the US Oncology acquisition.

In May 2010, the quarterly dividend was raised from \$0.12 to \$0.18 per common share and in April 2011, the quarterly dividend was raised from \$0.18 to \$0.20 per common share. The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon the Company's future earnings, financial condition, capital requirements and other factors. In 2012, 2011 and 2010, we paid total cash dividends of \$195 million, \$171 million and \$131 million.

Contractual Obligations:

The table below presents our significant financial obligations and commitments at March 31, 2012:

		Years			
(In millions)	Total	Within 1	Over 1 to 3	Over 3 to 5	After 5
On balance sheet					
Long-term debt ⁽¹⁾	\$ 3,580	\$ 508	\$ 353	\$ 1,100	\$ 1,619
Other ⁽²⁾	405	49	180	66	110
Off balance sheet					
Interest on borrowings ⁽³⁾	1,787	195	313	269	1,010
Purchase obligations ⁽⁴⁾	576	476	90	10	—
Operating lease obligations ⁽⁵⁾	868	188	280	167	233
Customer guarantees ⁽⁶⁾	166	107	35	3	21
Total	\$ 7,382	\$ 1,523	\$ 1,251	\$ 1,615	\$ 2,993

⁽¹⁾ Represents maturities of the Company's long-term obligations including an immaterial amount of capital lease obligations.

⁽²⁾ Represents our estimated benefit payments for the unfunded benefit plans and minimum funding requirements for the pension plans.

⁽³⁾ Primarily represents interest that will become due on our fixed rate long-term debt obligations.

⁽⁴⁾ A purchase obligation is defined as an arrangement to purchase goods or services that is enforceable and legally binding on the Company. These obligations primarily relate to inventory purchases, capital commitments and service agreements.

⁽⁵⁾ Represents minimum rental payments for operating leases.

⁽⁶⁾ Represents primarily agreements with certain of our Canadian customers' financial institutions under which we have guaranteed the repurchase of our customers' inventory or our customers' debt in the event these customers are unable to meet their obligations to those financial institutions. We also have an agreement with one software customer that, under limited circumstances, may require us to secure standby financing. Because the amount of the standby financing is not explicitly stated, the overall amount of this guarantee cannot reasonably be estimated.

At March 31, 2012, the liability recorded for uncertain tax positions, excluding associated interest and penalties, was approximately \$504 million. Since the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty, the estimated liability has been excluded from the contractual obligations table.

In addition, at March 31, 2012, our banks and insurance companies have issued \$86 million of standby letters of credit and surety bonds, which were issued on our behalf mostly related to our customer contracts and in order to meet the security requirements for statutory licenses and permits, court and fiduciary obligations and our workers' compensation and automotive liability programs.

McKESSON CORPORATION**FINANCIAL REVIEW (Continued)***Credit Resources:*

We fund our working capital requirements primarily with cash and cash equivalents, as well as, short-term borrowings under the accounts receivable sales facility, revolving credit facility and from commercial paper issuances.

Senior Bridge Term Loan Facility

In connection with our execution of an agreement to acquire US Oncology, in November 2010, we entered into a \$2.0 billion unsecured Senior Bridge Term Loan Agreement (“Bridge Loan”). In December 2010, we reduced the Bridge Loan commitment to \$1.0 billion. On January 31, 2011, we borrowed \$1.0 billion under the Bridge Loan. On February 28, 2011, we repaid the funds obtained under the Bridge Loan with long-term debt, as further described below, and the Senior Bridge Term Loan Agreement was terminated. During the time it was outstanding, the Bridge Loan bore interest of 1.76%, which was based on the London Interbank Offered Rate plus a margin based on the Company’s credit rating. Bridge Loan fees in 2011 of \$25 million were included in interest expense.

US Oncology Debt Acquired

Upon our purchase of US Oncology in December 2010, we assumed the outstanding debt of US Oncology Holdings, Inc. and its wholly-owned subsidiary US Oncology, Inc. Immediately prior to our acquisition, US Oncology Holdings, Inc. called for redemption all of its outstanding Senior Unsecured Floating Rate Toggle Notes due 2012, and US Oncology, Inc. called for redemption all of its outstanding 9.125% Senior Secured Notes due 2017 and 10.75% Senior Subordinated Notes due 2014. In the fourth quarter of 2011, we paid interest of \$50 million and redeemed these notes, including the remaining accrued interest, for \$1,738 million using cash on hand and borrowings under our Bridge Loan.

Long-Term Debt

On February 28, 2011, we issued 3.25% notes due March 1, 2016 in an aggregate principal amount of \$600 million, 4.75% notes due March 1, 2021 in an aggregate principal amount of \$600 million and 6.00% notes due March 1, 2041 in an aggregate principal amount of \$500 million. Interest is payable on March 1 and September 1 of each year beginning on September 1, 2011. We utilized net proceeds, after discounts and offering expenses, of \$1,673 million from the issuance of these notes for general corporate purposes, including the repayment of borrowings under the Bridge Loan.

We repaid our \$400 million 7.75% Notes in February 2012 and our \$215 million 9.13% Series C Senior notes in March 2010, both of which had matured.

Accounts Receivable Sales Facility

In May 2011, we renewed our existing accounts receivable sales facility for a one year period under terms substantially similar to those previously in place. The committed capacity of this facility is \$1.35 billion, although, from time-to-time, the available amount of this facility may be less than \$1.35 billion based on accounts receivable concentration limits and other eligibility requirements. During 2012, we borrowed \$400 million under this facility. There were no borrowings in 2011 under this facility. At March 31, 2012, there were \$400 million in secured borrowings and \$400 million of related securitized accounts receivable outstanding, which are included in short-term borrowings and receivables in the consolidated balance sheets, under this facility. At March 31, 2011 there were no secured borrowings or related securitized accounts receivables outstanding under this facility. The current accounts receivable sales facility will expire in May 2012. We anticipate renewing this facility before its expiration.

Additional information regarding our accounts receivable sales facility is included in Financial Notes 1 and 12, “Significant Accounting Policies” and “Debt and Financing Activities,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Revolving Credit Facility

In September 2011, we renewed our existing syndicated \$1.3 billion five-year senior unsecured revolving credit facility, which was scheduled to mature in June 2012. This renewed credit facility has terms and conditions substantially similar to those previously in place and matures in September 2016. Borrowings under this renewed credit facility bear interest based upon either the London Interbank Offered Rate or a prime rate. There were no borrowings under this credit facility during 2012, 2011 and 2010. As of March 31, 2012 and 2011, there were no borrowings outstanding under this credit facility.

Commercial Paper

There were no commercial paper issuances during 2012, 2011 and 2010 and no amount outstanding at March 31, 2012 and 2011.

Debt Covenant

Our various borrowing facilities and long-term debt are subject to certain covenants. Our principal debt covenant is our debt to capital ratio under our unsecured revolving credit facility, which cannot exceed 56.5%. For the purpose of calculating the debt to capital ratio under this covenant, borrowings under the accounts receivable sales facility are excluded. If we exceed this ratio, repayment of debt outstanding under the revolving credit facility could be accelerated. As of March 31, 2012, we were in compliance with our financial covenants. A reduction in our credit ratings, or the lack of compliance with our covenants, could negatively impact our ability to finance operations or issue additional debt at acceptable interest rates.

Funds necessary for future debt maturities and our other cash requirements are expected to be met by existing cash balances, cash flow from operations, existing credit sources and other capital market transactions.

RELATED PARTY BALANCES AND TRANSACTIONS

Information regarding our related party balances and transactions is included in Financial Note 21, "Related Party Balances and Transactions," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

NEW ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements that we have recently adopted, as well as those that have been recently issued but not yet adopted by us, are included in Financial Note 1, "Significant Accounting Policies," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

McKESSON CORPORATION**FINANCIAL REVIEW (Concluded)****Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

Interest rate risk: Our long-term debt bears interest predominately at fixed rates, whereas our short-term borrowings are at variable interest rates. If the underlying weighted average interest rate on our variable rate debt were to have changed by a hypothetical 50 bp in 2012, interest expense would not have been materially different from that reported.

Our cash and cash equivalents balances earn interest at variable rates. Should interest rates decline, our interest income may be negatively impacted. If the underlying weighted average interest rate on our cash and cash equivalents balances changed by 50 bp in 2012, interest income would have increased or decreased by approximately \$18 million. The selected hypothetical change in interest rates does not reflect what could be considered the best or worst case scenarios.

As of March 31, 2012 and 2011, the net fair value liability of financial instruments with exposure to interest rate risk was approximately \$4.1 billion and \$4.3 billion. The estimated fair value of our long-term debt and other financing was determined using quoted market prices and other inputs that were derived from available market information and may not be representative of actual values that could have been realized or that will be realized in the future. Fair value is subject to fluctuations based on our performance, our credit ratings, changes in the value of our stock and changes in interest rates for debt securities with similar terms.

Foreign exchange risk: We derive revenues and earnings from Canada, the United Kingdom, Ireland, other European countries, Israel and Mexico, which exposes us to changes in foreign exchange rates. We seek to manage our foreign exchange risk in part through operational means, including managing same currency revenues in relation to same currency costs, and same currency assets in relation to same currency liabilities. Foreign exchange risk is also managed through the use of foreign currency forward-exchange contracts. These contracts are used to offset the potential earnings effects from mostly intercompany foreign currency investments and loans. As of March 31, 2012, a hypothetical adverse 10% change in quoted foreign currency exchange rates would not have had a material impact on our net fair value of financial instruments that have exposure to foreign currency risk.

McKESSON CORPORATION

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL INFORMATION

	<u>Page</u>
Management's Annual Report on Internal Control Over Financial Reporting	52
Report of Independent Registered Public Accounting Firm	53
Consolidated Financial Statements:	
Consolidated Statements of Operations for the years ended March 31, 2012, 2011 and 2010	54
Consolidated Balance Sheets as of March 31, 2012 and 2011	55
Consolidated Statements of Stockholders' Equity for the years ended March 31, 2012, 2011 and 2010	56
Consolidated Statements of Cash Flows for the years ended March 31, 2012, 2011 and 2010	57
Financial Notes	58

McKESSON CORPORATION

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of McKesson Corporation is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). With the participation of the Chief Executive Officer and the Chief Financial Officer, our management conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework and criteria established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management has concluded that our internal control over financial reporting was effective as of March 31, 2012.

Deloitte & Touche LLP, an independent registered public accounting firm, audited the financial statements included in this Annual Report on Form 10-K and has also audited the effectiveness of the Company's internal control over financial reporting as of March 31, 2012. This audit report appears on page 53 of this Annual Report on Form 10-K.

May 2, 2012

/s/ John H. Hammergren

John H. Hammergren

Chairman of the Board, President and Chief Executive Officer
(Principal Executive Officer)

/s/ Jeffrey C. Campbell

Jeffrey C. Campbell

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

McKESSON CORPORATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of McKesson Corporation:

We have audited the accompanying consolidated balance sheets of McKesson Corporation and subsidiaries (the “Company”) as of March 31, 2012 and 2011, and the related consolidated statements of operations, stockholders’ equity and cash flows for each of the three fiscal years in the period ended March 31, 2012. Our audits also included the consolidated financial statement schedule (“financial statement schedule”) listed in the Index at Item 15. We also have audited the Company’s internal control over financial reporting as of March 31, 2012, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management’s Annual Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on these financial statements and financial statement schedule, and an opinion on the Company’s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of McKesson Corporation and subsidiaries as of March 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three fiscal years in the period ended March 31, 2012, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2012, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP
San Francisco, California
May 2, 2012

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share amounts)

	Years Ended March 31,		
	2012	2011	2010
Revenues	\$ 122,734	\$ 112,084	\$ 108,702
Cost of Sales	116,167	106,114	103,026
Gross Profit	<u>6,567</u>	<u>5,970</u>	<u>5,676</u>
Operating Expenses			
Selling	764	767	746
Distribution	997	920	882
Research and development	440	407	376
Administrative	2,068	1,842	1,684
Litigation charges (credit), net	149	213	(20)
Total Operating Expenses	<u>4,418</u>	<u>4,149</u>	<u>3,668</u>
Operating Income	2,149	1,821	2,008
Other Income, Net	21	36	43
Interest Expense	<u>(251)</u>	<u>(222)</u>	<u>(187)</u>
Income from Continuing Operations Before Income Taxes	1,919	1,635	1,864
Income Tax Expense	<u>(516)</u>	<u>(505)</u>	<u>(601)</u>
Income from Continuing Operations	1,403	1,130	1,263
Discontinued Operation – gain on sale, net of tax	<u>—</u>	<u>72</u>	<u>—</u>
Net Income	<u><u>\$ 1,403</u></u>	<u><u>\$ 1,202</u></u>	<u><u>\$ 1,263</u></u>
Earnings Per Common Share			
Diluted			
Continuing operations	\$ 5.59	\$ 4.29	\$ 4.62
Discontinued operation – gain on sale	<u>—</u>	<u>0.28</u>	<u>—</u>
Total	<u><u>\$ 5.59</u></u>	<u><u>\$ 4.57</u></u>	<u><u>\$ 4.62</u></u>
Basic			
Continuing operations	\$ 5.70	\$ 4.37	\$ 4.70
Discontinued operation – gain on sale	<u>—</u>	<u>0.28</u>	<u>—</u>
Total	<u><u>\$ 5.70</u></u>	<u><u>\$ 4.65</u></u>	<u><u>\$ 4.70</u></u>
Weighted Average Common Shares			
Diluted	251	263	273
Basic	246	258	269

See Financial Notes

McKESSON CORPORATION

CONSOLIDATED BALANCE SHEETS
(In millions, except per share amounts)

	March 31,	
	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 3,149	\$ 3,612
Receivables, net	9,977	9,187
Inventories, net	10,073	9,225
Prepaid expenses and other	404	333
Total Current Assets	<u>23,603</u>	<u>22,357</u>
Property, Plant and Equipment, Net	1,043	991
Goodwill	5,032	4,364
Intangible Assets, Net	1,750	1,456
Other Assets	1,665	1,718
Total Assets	<u><u>\$ 33,093</u></u>	<u><u>\$ 30,886</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Drafts and accounts payable	\$ 16,114	\$ 14,090
Short-term borrowings	400	—
Deferred revenue	1,423	1,321
Deferred tax liabilities	1,092	1,037
Current portion of long-term debt	508	417
Other accrued liabilities	2,149	1,861
Total Current Liabilities	<u>21,686</u>	<u>18,726</u>
Long-Term Debt	3,072	3,587
Other Noncurrent Liabilities	1,504	1,353
Other Commitments and Contingent Liabilities (Note 19)		
Stockholders' Equity		
Preferred stock, \$0.01 par value, 100 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.01 par value, 800 shares authorized at March 31, 2012 and 2011, 373 and 369 shares issued at March 31, 2012 and 2011	4	4
Additional Paid-in Capital	5,571	5,339
Retained Earnings	9,451	8,250
Accumulated Other Comprehensive Income	5	87
Other	4	10
Treasury Shares, at Cost, 138 and 117 at March 31, 2012 and 2011	<u>(8,204)</u>	<u>(6,470)</u>
Total Stockholders' Equity	<u>6,831</u>	<u>7,220</u>
Total Liabilities and Stockholders' Equity	<u><u>\$ 33,093</u></u>	<u><u>\$ 30,886</u></u>

See Financial Notes

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended March 31, 2012, 2011 and 2010
(In millions, except per share amounts)

	Common Stock		Additional Paid-in Capital	Other Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury		Stockholders' Equity	Other Comprehensive Income
	Shares	Amount					Common Shares	Amount		
Balances, March 31, 2009	351	\$ 4	\$ 4,417	\$ (8)	\$ 6,103	\$ (179)	(80)	\$ (4,144)	\$ 6,193	
Issuance of shares under employee plans	8		218				(1)	(24)	194	
Share-based compensation			114						114	
Tax benefit related to issuance of shares under employee plans			11						11	
Translation adjustments						238			238	\$ 238
Unrealized net loss and other components of benefit plans, net of tax benefit of \$32						(53)			(53)	(53)
Net income					1,263				1,263	1,263
Repurchase of common stock							(7)	(299)	(299)	
Cash dividends declared, \$0.48 per common share					(131)				(131)	
Other			(4)	(4)	1			9	2	
Balances, March 31, 2010	359	\$ 4	\$ 4,756	\$ (12)	\$ 7,236	\$ 6	(88)	\$ (4,458)	\$ 7,532	\$ 1,448
Issuance of shares under employee plans	10		370					(17)	353	
Share-based compensation			137						137	
Tax benefit related to issuance of shares under employee plans			113						113	
Translation adjustments						76			76	\$ 76
Net income					1,202				1,202	1,202
Repurchase of common stock			(37)				(29)	(1,995)	(2,032)	
Cash dividends declared, \$0.72 per common share					(188)				(188)	
Other				22		5			27	5
Balances, March 31, 2011	369	\$ 4	\$ 5,339	\$ 10	\$ 8,250	\$ 87	(117)	\$ (6,470)	\$ 7,220	\$ 1,283
Issuance of shares under employee plans	4		167				(1)	(24)	143	
Share-based compensation			154						154	
Tax benefit related to issuance of shares under employee plans			46						46	
Translation adjustments						(56)			(56)	\$ (56)
Unrealized net loss and other components of benefit plans, net of tax benefit of \$9						(21)			(21)	(21)
Net income					1,403				1,403	1,403
Repurchase of common stock			(140)				(20)	(1,710)	(1,850)	
Cash dividends declared, \$0.80 per common share					(202)				(202)	
Other			5	(6)		(5)			(6)	(5)
Balances, March 31, 2012	373	\$ 4	\$ 5,571	\$ 4	\$ 9,451	\$ 5	(138)	\$ (8,204)	\$ 6,831	\$ 1,321

See Financial Notes

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Years Ended March 31,		
	2012	2011	2010
Operating Activities			
Net income	\$ 1,403	\$ 1,202	\$ 1,263
Discontinued operation – gain on sale, net of tax	—	(72)	—
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation	140	139	148
Amortization	411	357	326
Provision for bad debts	30	18	17
Other deferred taxes	242	184	161
Share-based compensation expense	154	137	114
Impairment of capitalized software held for sale	—	72	—
Other non-cash items	66	12	(20)
Changes in operating assets and liabilities, net of acquisitions:			
Receivables	(770)	(673)	(133)
Inventories	(878)	367	(782)
Drafts and accounts payable	2,027	533	1,340
Deferred revenue	66	42	27
Taxes	15	33	88
Litigation charges (credit)	149	213	(20)
Litigation settlement payments	(26)	(26)	(350)
Deferred tax (benefit) expense on litigation	(78)	(56)	116
Other	(1)	(144)	21
Net cash provided by operating activities	2,950	2,338	2,316
Investing Activities			
Property acquisitions	(225)	(233)	(199)
Capitalized software expenditures	(178)	(155)	(179)
Acquisitions, net of cash and cash equivalents acquired	(1,156)	(292)	(18)
Proceeds from sale of businesses	—	109	1
Restricted cash for litigation charges	(32)	—	55
Other	89	(53)	31
Net cash used in investing activities	(1,502)	(624)	(309)
Financing Activities			
Proceeds from short-term borrowings	400	1,000	5
Repayments of short-term borrowings	—	(1,000)	(6)
Proceeds from issuances of long-term debt	—	1,689	—
Repayments of long-term debt	(430)	(1,730)	(218)
Common stock transactions:			
Issuances	167	367	212
Share repurchases, including shares surrendered for tax withholding	(1,874)	(2,050)	(323)
Dividends paid	(195)	(171)	(131)
Other	27	54	40
Net cash used in financing activities	(1,905)	(1,841)	(421)
Effect of exchange rate changes on cash and cash equivalents	(6)	8	36
Net increase (decrease) in cash and cash equivalents	(463)	(119)	1,622
Cash and cash equivalents at beginning of year	3,612	3,731	2,109
Cash and cash equivalents at end of year	\$ 3,149	\$ 3,612	\$ 3,731
Supplemental Cash Flow Information			
Cash paid for:			
Interest	\$ 228	\$ 244	\$ 188
Income taxes, net of refunds	337	347	234
Non-cash item:			
Fair value of debt assumed on acquisition	\$ —	\$ (1,891)	\$ —

See Financial Notes

McKESSON CORPORATION**FINANCIAL NOTES****1. Significant Accounting Policies**

Nature of Operations: McKesson Corporation (“McKesson,” the “Company,” the “Registrant” or “we” and other similar pronouns) delivers pharmaceuticals, medical supplies and health care information technologies that make health care safer while reducing costs. We conduct our business through two operating segments, McKesson Distribution Solutions and McKesson Technology Solutions, as further described in Financial Note 22, “Segments of Business.”

Basis of Presentation: The consolidated financial statements and accompanying notes are prepared in accordance with U. S. generally accepted accounting principles (“GAAP”). The consolidated financial statements of McKesson include the financial statements of all wholly-owned subsidiaries and majority-owned or controlled companies. We also evaluate our ownership, contractual and other interests in entities to determine if they are variable interest entities (“VIEs”), if we have a variable interest in those entities and the nature and extent of those interests. These evaluations are highly complex and involve judgment and the use of estimates and assumptions based on available historical information and management’s judgment, among other factors. Based on our evaluations, if we determine we are the primary beneficiary of such VIEs we consolidate such entities into our financial statements. The consolidated VIEs are not material to our consolidated financial statements. Intercompany transactions and balances have been eliminated.

Fiscal Period: The Company’s fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references to a particular year shall mean the Company’s fiscal year.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation.

Use of Estimates: The preparation of financial statements in conformity with U.S. GAAP requires that we make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual amounts could differ from those estimated amounts.

Cash and Cash Equivalents: All highly liquid debt instruments purchased with original maturity of three months or less at the date of acquisition are included in cash and cash equivalents.

Cash is primarily held in non-interest bearing accounts and is fully insured by the Federal Deposit Insurance Corporation regardless of the dollar amount. Cash equivalents are primarily invested in AAA rated prime money market funds denominated in US dollars, Canadian government securities and a AAA rated prime money market fund denominated in British pound sterling.

The remaining cash and cash equivalents are deposited with several financial institutions. We mitigate the risk of our short-term investment portfolio by depositing funds with reputable financial institutions and monitoring risk profiles and investment strategies of money market funds.

Restricted Cash: Cash that is subject to legal restrictions or is unavailable for general operating purposes is classified as restricted cash and is included within prepaid expenses and other in the consolidated balance sheets. At March 31, 2012 and 2011, restricted cash was not material.

Marketable Securities Available for Sale: We carry our marketable securities, which are available for sale, at fair value and they are included in prepaid expenses and other in the consolidated balance sheets. The net unrealized gains and losses, net of the related tax effect, computed in marking these securities to market have been reported within stockholders’ equity. At March 31, 2012 and 2011, marketable securities were not material.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Concentrations of Credit Risk and Receivables: Our trade receivables are subject to a concentration of credit risk with customers primarily in our Distribution Solutions segment. During 2012, sales to our ten largest customers accounted for approximately 52% of our total consolidated revenues. Sales to our two largest customers, CVS Caremark Corporation (“CVS”) and Rite Aid Corporation (“Rite Aid”), accounted for approximately 16% and 10% of our total consolidated revenues. At March 31, 2012, accounts receivable from our ten largest customers were approximately 49% of total accounts receivable. Accounts receivable from CVS, Wal-Mart Stores, Inc. (“Walmart”) and Rite Aid were approximately 17%, 10% and 9% of total accounts receivable. As a result, our sales and credit concentration is significant. We also have agreements with group purchasing organizations (“GPOs”), each of which functions as a purchasing agent on behalf of member hospitals, pharmacies and other healthcare providers. The accounts receivables balances are with individual members of the GPOs. A default in payment, a material reduction in purchases from these, or any other large customers or the loss of a large customer could have a material adverse impact on our financial condition, results of operations and liquidity. In addition, trade receivables are subject to a concentration of credit risk with customers in the institutional, retail and healthcare provider sectors, which can be affected by a downturn in the economy and changes in reimbursement policies. This credit risk is mitigated by the size and diversity of the customer base as well as its geographic dispersion. We estimate the receivables for which we do not expect full collection based on historical collection rates and ongoing evaluations of the creditworthiness of our customers. An allowance is recorded in our consolidated financial statements for these amounts.

Financing Receivables: We assess and monitor credit risk associated with financing receivables, namely lease and notes receivables, through regular review of our collection experience in determining our allowance for loan losses. On an ongoing basis, we also evaluate credit quality of our financing receivables utilizing aging of receivables and write-offs, as well as consider existing economic conditions, to determine if an allowance is necessary. As of March 31, 2012 and 2011, financing receivables and the related allowance were not material to our consolidated financial statements.

Inventories: We report inventories at the lower of cost or market (“LCM”). Inventories for our Distribution Solutions segment consist of merchandise held for resale. For our Distribution Solutions segment, the majority of the cost of domestic inventories is determined using the last-in, first-out (“LIFO”) method and the cost of Canadian inventories is determined using the first-in, first-out (“FIFO”) method. Technology Solutions segment inventories consist of computer hardware with cost generally determined by the standard cost method, which approximates average cost. Rebates, fees, cash discounts, allowances, chargebacks and other incentives received from vendors are generally accounted for as a reduction in the cost of inventory and are recognized when the inventory is sold.

The LIFO method was used to value approximately 88% and 87% of our inventories at March 31, 2012 and 2011. At March 31, 2012 and 2011, our LIFO reserves, net of LCM adjustments, were \$107 million and \$96 million. LIFO reserves include both pharmaceutical and non-pharmaceutical products. In 2012, 2011 and 2010, we recognized net LIFO expense of \$11 million, \$3 million and \$8 million within our consolidated statements of operations, which related to our non-pharmaceutical products. A LIFO expense is recognized when the net effect of price increases on branded pharmaceuticals and non-pharmaceutical products held in inventory exceeds the impact of price declines and shifts towards generic pharmaceuticals, including the effect of branded pharmaceutical products that have lost market exclusivity. A LIFO credit is recognized when the net effect of price declines and shifts towards generic pharmaceuticals exceeds the impact of price increases on branded pharmaceuticals and non-pharmaceutical products held in inventory.

We believe that the average cost or FIFO inventory costing method provides a reasonable estimation of the current cost of replacing inventory (*i.e.*, “market”). As such, our LIFO inventory is valued at the lower of LIFO or market. Primarily due to continued net deflation in generic pharmaceutical inventories, pharmaceutical inventories at LIFO were \$76 million and \$156 million higher than market as of March 31, 2012 and 2011. As a result, we recorded a LCM credit of \$80 million in 2012 and a LCM charge of \$44 million in 2011 within our consolidated statements of operations to adjust our LIFO inventories to market.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Shipping and Handling Costs: We include all costs to warehouse, pick, pack and deliver inventory to our customers in distribution expenses.

Property, Plant and Equipment: We state our property, plant and equipment at cost and depreciate them under the straight-line method at rates designed to distribute the cost of properties over estimated service lives ranging from one to 30 years.

Goodwill: Goodwill is tested for impairment on an annual basis in the fourth quarter or more frequently if indicators for potential impairment exist. Impairment testing is conducted at the reporting unit level, which is generally defined as a component — one level below our Distribution Solutions and Technology Solutions operating segments, for which discrete financial information is available and segment management regularly reviews the operating results of that unit. Components that have essentially similar operations, products, services and customers are aggregated as a single reporting unit.

Impairment tests require that we compare the carrying value of our reporting units to the estimated fair value of the reporting units. Goodwill is reviewed for impairment utilizing either a qualitative or quantitative assessment. If we decide that it is appropriate to perform a qualitative assessment and conclude that the fair value of a reporting unit more likely than not exceeds its carrying value, no further evaluation is necessary. For reporting units where we perform a quantitative assessment, the fair value of a reporting unit is based upon a number of considerations including projections of revenues, earnings and discounted cash flows and determination of market value multiples for similar businesses or guideline companies whose securities are actively traded in public markets. The discount rate used for cash flows reflects capital market conditions and the specific risks associated with the business. In addition, we compare the aggregate of the reporting units' fair value to the Company's market capitalization as a further corroboration of the fair value. The testing requires a complex series of assumptions and judgment by management in projecting future operating results, selecting guideline companies for comparisons and assessing risks. The use of alternative assumptions and estimates could affect the fair values and change the impairment determinations. There were no goodwill impairments during 2012, 2011, or 2010.

Intangible Assets: Currently all of our intangible assets are subject to amortization and are generally amortized on a straight line basis over their estimated useful lives, ranging from one to twenty years. We review identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Determination of recoverability is based on the lowest level of identifiable estimated undiscounted cash flows resulting from use of the asset and its eventual disposition. Measurement of any impairment loss is based on the excess of the carrying value of the asset over its fair value. There were no material impairments of intangible assets during 2012, 2011 or 2010.

Capitalized Software Held for Sale: Development costs for software held for sale, which primarily pertain to our Technology Solutions segment, are capitalized once a project has reached the point of technological feasibility. Completed projects are amortized after reaching the point of general availability using the straight-line method based on an estimated useful life of approximately three years. At each balance sheet date, or earlier if an indicator of an impairment exists, we evaluate the recoverability of unamortized capitalized software costs based on estimated future undiscounted revenues net of estimated related costs over the remaining amortization period. As of March 31, 2012 and 2011, capitalized software held for sale was \$144 million and \$152 million, net of accumulated amortization and was included in other assets in the consolidated balance sheets.

Additional information regarding our capitalized software held for sale is as follows:

(In millions)	Years Ended March 31,		
	2012	2011	2010
Amounts capitalized	\$ 47	\$ 64	\$ 75
Amortization expense	53	75	67
Impairment charge	—	72	—
Third-party royalty fees paid	95	72	63

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Capitalized Software Held for Internal Use: We capitalize costs of software held for internal use during the application development stage of a project and amortize those costs over the assets' estimated useful lives ranging from one to ten years. As of March 31, 2012 and 2011, capitalized software held for internal use was \$445 million and \$446 million, net of accumulated amortization of \$902 million and \$778 million, and was included in other assets in the consolidated balance sheets.

Insurance Programs: Under our insurance programs, we seek to obtain coverage for catastrophic exposures as well as those risks required to be insured by law or contract. It is our policy to retain a significant portion of certain losses primarily related to workers' compensation and comprehensive general, product and vehicle liability. Provisions for losses expected under these programs are recorded based upon our estimate of the aggregate liability for claims incurred as well as for claims incurred but not yet reported. Such estimates utilize certain actuarial assumptions followed in the insurance industry.

Revenue Recognition: Revenues for our Distribution Solutions segment are recognized when product is delivered and title passes to the customer or when services have been rendered and there are no further obligations to the customer.

Revenues are recorded net of sales returns, allowances, rebates and other incentives. Our sales return policy generally allows customers to return products only if they can be resold for value or returned to suppliers for full credit. Sales returns are accrued based on estimates at the time of sale to the customer. Sales returns from customers were approximately \$1.6 billion in 2012, \$1.4 billion in 2011 and \$1.2 billion in 2010. Taxes collected from customers and remitted to governmental authorities are presented on a net basis; that is, they are excluded from revenues.

The revenues for our Distribution Solutions segment include large volume sales of pharmaceuticals to a limited number of large customers who warehouse their own product. We order bulk product from the manufacturer, receive and process the product through our central distribution facility and deliver the bulk product (generally in the same form as received from the manufacturer) directly to our customers' warehouses. Sales to customers' warehouses amounted to \$20.5 billion in 2012, \$18.6 billion in 2011, and \$21.4 billion in 2010. We also record revenues for direct store deliveries from most of these same customers. Direct store deliveries are shipments from the manufacturer to our customers of a limited category of products that require special handling. We assume the primary liability to the manufacturer for these products.

Revenues are recorded gross when we are the primary party obligated in the transaction, take title to and possession of the inventory, are subject to inventory risk, have latitude in establishing prices, assume the risk of loss for collection from customers as well as delivery or return of the product, are responsible for fulfillment and other customer service requirements, or the transactions have several but not all of these indicators.

Our Distribution Solutions segment also engages in multiple-element arrangements, which may contain a combination of various products and services. Revenue from a multiple element arrangement is allocated to the separate elements based on estimates of fair value and recognized in accordance with the revenue recognition criteria applicable to each element. If fair value cannot be established for any undelivered element, all of the arrangement's revenue is deferred until delivery of the last element has occurred and services have been performed or until fair value can objectively be determined for any remaining undelivered elements. Effective April 1, 2011, revenue from a multiple element arrangement is allocated to the separate elements, based on the best estimate of selling prices if neither objective evidence nor third party evidence of selling prices exists for all new arrangements or materially modified existing arrangements.

Revenues for our Technology Solutions segment are generated primarily by licensing software and software systems (consisting of software, hardware and maintenance support), and providing outsourcing and professional services. Revenue for this segment is recognized as follows:

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Software systems are marketed under information systems agreements as well as service agreements. Perpetual software arrangements are recognized at the time of delivery or under the percentage-of-completion method based on the terms and conditions in the contract. Contracts accounted for under the percentage-of-completion method are generally measured based on the ratio of labor costs incurred to date to total estimated labor costs to be incurred. Changes in estimates to complete and revisions in overall profit estimates on these contracts are charged to earnings in the period in which they are determined. We accrue for contract losses if and when the current estimate of total contract costs exceeds total contract revenue.

Hardware revenues are generally recognized upon delivery. Revenue from multi-year software license agreements is recognized ratably over the term of the agreement. Software implementation fees are recognized as the work is performed or under the percentage-of-completion method. Maintenance and support agreements are marketed under annual or multi-year agreements and are recognized ratably over the period covered by the agreements. Subscription, content and transaction processing fees are generally marketed under annual and multi-year agreements and are recognized ratably over the contracted terms beginning on the service start date for fixed fee arrangements and recognized as transactions are performed beginning on the service start date for per-transaction fee arrangements. Remote processing service fees are recognized monthly as the service is performed. Outsourcing service revenues are recognized as the service is performed.

We also offer certain products on an application service provider basis, making our software functionality available on a remote hosting basis from our data centers. The data centers provide system and administrative support, as well as hosting services. Revenue on products sold on an application service provider basis is recognized on a monthly basis over the term of the contract beginning on the service start date of products hosted.

This segment also engages in multiple-element arrangements, which may contain any combination of software, hardware, implementation or consulting services, or maintenance services. When some elements are delivered prior to others in an arrangement and vendor-specific objective evidence of fair value ("VSOE") exists for the undelivered elements, revenue for the delivered elements is recognized upon delivery of such items. The segment establishes VSOE for hardware and implementation and consulting services based on the price charged when sold separately, and for maintenance services, based on renewal rates offered to customers. Revenue for the software element is recognized under the residual method only when fair value has been established for all of the undelivered elements in an arrangement. If fair value cannot be established for any undelivered element, all of the arrangement's revenue is deferred until the delivery of the last element or until the fair value of the undelivered element is determinable. Effective April 1, 2011, we adopted the revised revenue recognition guidance which removed from the scope of software revenue recognition guidance tangible products containing software component and non-software component that function together to deliver the product's essential functionality. This amended accounting guidance was applied prospectively for all arrangements entered into after April 1, 2011 or materially modified after that date.

Our Technology Solutions segment also includes revenues from disease management programs provided to various states' Medicaid programs. These service contracts include provisions for achieving certain cost-savings and clinical targets. If the targets are not met for certain of these contracts, a portion, or all, of the revenue must be refunded to the customer. We recognize revenue during the term of the contract by assessing actual performance against contractual targets and then determining the amount the customer would be legally obligated to pay if the contract terminated as of the measurement date. These assessments include estimates of medical claims and other data in accordance with the contract methodology. Because complete data is unavailable until six to nine months after the measurement period, there is generally a significant time delay between recording the accrual and the final settlement of the contract. If data is insufficient to assess performance or we have not met the targets, we defer recognition of the revenue. As of March 31, 2012 and 2011, we had deferred \$3 million and \$25 million related to these types of contracts, which was included in deferred revenue in the consolidated balance sheets. We generally have been successful in achieving performance targets under these agreements.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Supplier Incentives: Fees for service and other incentives received from suppliers, relating to the purchase or distribution of inventory, are generally reported as a reduction to cost of goods sold. We consider these fees and other incentives to represent product discounts and as a result, the amounts are recorded as a reduction of product cost and are recognized through cost of goods sold upon the sale of the related inventory.

Supplier Reserves: We establish reserves against amounts due from suppliers relating to various price and rebate incentives, including deductions or billings taken against payments otherwise due to them. These reserve estimates are established based on judgment after considering the status of current outstanding claims, historical experience with the suppliers, the specific incentive programs and any other pertinent information available. We evaluate the amounts due from suppliers on a continual basis and adjust the reserve estimates when appropriate based on changes in factual circumstances. As of March 31, 2012 and 2011, supplier reserves were \$115 million and \$102 million. The ultimate outcome of any outstanding claim may be different than our estimate. All of the supplier reserves at March 31, 2012 and 2011 pertain to our Distribution Solutions segment.

Income Taxes: We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statements and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Tax benefits from uncertain tax positions are recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The amount recognized is measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon effective settlements. Deferred taxes are not provided on undistributed earnings of our foreign operations that are considered to be permanently reinvested.

Foreign Currency Translation: Our international subsidiaries generally consider their local currency to be their functional currency. Assets and liabilities of these international subsidiaries are translated into U.S. dollars at year-end exchange rates and revenues and expenses are translated at average exchange rates during the year. Cumulative currency translation adjustments are included in accumulated other comprehensive income or losses in the stockholders' equity section of the consolidated balance sheets. Realized gains and losses from currency exchange transactions are recorded in operating expenses in the consolidated statements of operations and were not material to our consolidated results of operations in 2012, 2011 or 2010.

Derivative Financial Instruments: Derivative financial instruments are used principally in the management of foreign currency and interest rate exposures and are recorded on the consolidated balance sheets at fair value. If a derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized as a charge or credit to earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in accumulated other comprehensive income or losses and are recognized in the consolidated statements of operations when the hedged item affects earnings. We periodically evaluate hedge effectiveness, and ineffective portions of changes in the fair value of cash flow hedges are recognized as a charge or credit to earnings. Derivative instruments not designated as hedges are marked-to-market at the end of each accounting period with the change included in earnings.

Share-Based Compensation: We account for all share-based compensation transactions using a fair-value based measurement method. The share-based compensation expense, for the portion of the awards that is ultimately expected to vest, is recognized on a straight-line basis over the requisite service period for those awards with graded vesting and service conditions. For awards with performance conditions and multiple vest dates, we recognize the expense on a graded vesting basis. For awards with performance conditions and a single vest date, we recognize the expense on a straight-line basis. The compensation expense recognized has been classified in the consolidated statements of operations or capitalized on the consolidated balance sheets in the same manner as cash compensation paid to our employees.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Loss Contingencies: We are subject to various claims, other pending and potential legal actions for damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of our business. When a loss is considered probable and reasonably estimable, we record a liability in the amount of our best estimate for the ultimate loss. However, the likelihood of a loss with respect to a particular contingency is often difficult to predict and determining a meaningful estimate of the loss or a range of loss may not be practicable based on the information available and the potential effect of future events and decisions by third parties that will determine the ultimate resolution of the contingency. Moreover, it is not uncommon for such matters to be resolved over many years, during which time relevant developments and new information must be reevaluated at least quarterly to determine both the likelihood of potential loss and whether it is possible to reasonably estimate a range of possible loss. When a loss is probable but a reasonable estimate cannot be made, disclosure of the proceeding is provided.

Disclosure also is provided when it is reasonably possible that a loss will be incurred or when it is reasonably possible that the amount of a loss will exceed the recorded provision. We review all contingencies at least quarterly to determine whether the likelihood of loss has changed and to assess whether a reasonable estimate of the loss or range of the loss can be made. As discussed above, development of a meaningful estimate of loss or a range of potential loss is complex when the outcome is directly dependent on negotiations with or decisions by third parties, such as regulatory agencies, the court system and other interested parties. Such factors bear directly on whether it is possible to reasonably estimate a range of potential loss and boundaries of high and low estimate.

Business Combinations: We account for acquired businesses using the acquisition method of accounting, which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Acquisition-related expenses and related restructuring costs are expensed as incurred.

Recently Adopted Accounting Pronouncements

Revenue Recognition: On April 1, 2011, we adopted amended accounting guidance on a prospective basis for multiple-element arrangements entered into or materially modified on or after April 1, 2011. The amended guidance incorporates the use of a vendor's best estimate of selling price, if neither vendor specific objective evidence nor third party evidence of selling price exists, to allocate arrangement consideration and eliminates the use of the residual method. Implementation of this new guidance did not have a material impact on reported net revenues as compared to net revenues under previous guidance as the incorporation of the use of a vendor's best estimate of selling price and the elimination of the residual method for the allocation of arrangement consideration did not materially change how we allocate arrangement consideration to our various products and services or the amount and timing of reported net revenues.

On April 1, 2011, we adopted amended guidance for certain revenue arrangements that include software elements. The guidance amends pre-existing software revenue guidance by removing from its scope tangible products that contain both software and non-software components that function together to deliver the product's functionality. The amended guidance was adopted on a prospective basis for revenue arrangements entered into or materially modified on or after April 1, 2011. The adoption of this amended guidance did not have a material effect on our consolidated financial statements.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

On April 1, 2011, we adopted amended accounting guidance for vendors who apply the milestone method of revenue recognition to research and development arrangements. The amended guidance applies to arrangements with payments that are contingent, at inception, upon achieving substantively uncertain future events or circumstances. The amended guidance was adopted on a prospective basis for milestones achieved on or after April 1, 2011. The adoption of this amended guidance did not have a material effect on our consolidated financial statements.

Fair Value Measurements and Disclosures: In 2012, we adopted amended guidance related to clarification on how to measure fair values and additional disclosure requirements related to fair value measurements and the roll-forward activity of Level 3 fair value measurements, which are measured based on significant unobservable inputs. The adoption of this amended guidance did not have a material effect on our consolidated financial statements.

Goodwill: In 2012, we adopted amended guidance related to goodwill impairment testing. The amended guidance provides the option to perform a qualitative assessment by applying a more likely than not determination as to whether the fair value of a reporting unit is less than its carrying amount, which may then allow a company to skip the annual two-step quantitative goodwill impairment test depending on the determination. This amended guidance was effective for us commencing in the first quarter of 2013. Early adoption was permitted. The amended guidance was early adopted and did not have a material effect on our consolidated financial statements.

Multitemployer Pension and Other Postretirement Benefit Plans: In 2012, we adopted amended guidance related to an employer's participation in multitemployer pension and other postretirement benefit plans, which require employers to provide additional quantitative and qualitative disclosures for these types of plans. The amended guidance was adopted on a retrospective basis. The adoption of this amended guidance did not have a material effect on our consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In June 2011, amended guidance related to the presentation of other comprehensive income was issued. The amended guidance requires that comprehensive income, the components of net income and the components of other comprehensive income be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income as determined under current accounting guidance. In December 2011, an amendment to this guidance was issued, which defers the requirement to present reclassification adjustments for each component of other comprehensive income in both net income and other comprehensive income on the face of the financial statements. The amended guidance is effective for us on a retrospective basis commencing in the first quarter of 2013. We do not expect the adoption of the amended guidance to have a material effect on our consolidated financial statements.

In December 2011, disclosure guidance related to the offsetting of assets and liabilities was issued. The guidance requires an entity to disclose information about offsetting and related arrangements for recognized financial and derivative instruments to enable users of its financial statements to understand the effect of those arrangements on its financial position. The amended guidance is effective for us on a retrospective basis commencing in the first quarter of 2014. We are currently evaluating the impact of this new guidance on our consolidated financial statements.

2. Business Combinations

On December 30, 2010, we acquired all of the outstanding shares of US Oncology Holdings, Inc. ("US Oncology") for approximately \$2.1 billion, consisting of cash consideration of \$0.2 billion, net of cash acquired, and the assumption of liabilities with a fair value of \$1.9 billion. The cash paid at acquisition was funded from cash on hand. As an integrated oncology company, US Oncology is affiliated with community-based oncologists, and works with patients, hospitals, payers and the medical industry across all phases of the cancer research and delivery continuum. The acquisition of US Oncology expands our existing specialty pharmaceutical distribution business and adds practice management services for oncologists. Financial results for US Oncology have been included in the results of operations within our Distribution Solutions segment beginning in the fourth quarter of 2011.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

During the third quarter of 2012, the fair value measurements of assets acquired and liabilities assumed as of the acquisition date were completed. The following table summarizes the final amounts of the fair values recognized for the assets acquired and liabilities assumed as of the acquisition date, as well as measurement period adjustments made in the first nine months of 2012 to the amounts initially recorded in 2011. The measurement period adjustments during the first nine months of 2012 did not have a material impact on our consolidated statements of operations, balance sheets or cash flows in any period, and, therefore, we have not retrospectively adjusted our financial statements.

<i>(In millions)</i>	Amounts Previously Recognized as of Acquisition Date (Provisional) ⁽¹⁾	Measurement Period Adjustments	Amounts Recognized as of Acquisition Date (Final as Adjusted)
Current assets, net of cash acquired	\$ 662	\$ (13)	\$ 649
Goodwill	808	20	828
Intangible assets	1,007	(14)	993
Other long-term assets	354	(6)	348
Current liabilities	(489)	(1)	(490)
Current portion of long-term debt	(1,735)	—	(1,735)
Other long-term liabilities	(338)	16	(322)
Other stockholders' equity	(25)	(2)	(27)
Net assets acquired, less cash and cash equivalents	\$ 244	\$ —	\$ 244

⁽¹⁾ As previously reported in our Form 10-K for the year ended March 31, 2011.

Included in the purchase price allocation are acquired identifiable intangibles of \$993 million, the fair value of which was determined by using Level 3 inputs, which are estimated using significant unobservable inputs. Acquired intangible assets primarily consist of \$721 million of service agreements and \$185 million of customer lists. The estimated weighted average lives of the service agreements, customer lists and total acquired intangible assets are 18 years, 10 years and 16 years. The fair value of the debt acquired was determined primarily by using Level 3 inputs. Refer to Financial Note 12, "Debt and Financing Activities," for additional information on the assumption and funding of acquired debt. The excess of the purchase price over the net tangible and intangible assets was recorded as goodwill, which primarily reflects the expected future benefits to be realized upon integrating the business.

On March 25, 2012, we acquired substantially all of the assets of Drug Trading Company Limited, the independent banner business of the Katz Group Canada Inc. ("Katz Group"), and Medicine Shoppe Canada Inc., the franchise business of the Katz Group (collectively, "Katz Assets") for approximately \$919 million, net of cash acquired. The total purchase price is subject to change due to working capital adjustments within 60 days of closing. The cash paid at acquisition was funded from cash on hand. The acquisition of the assets from the Drug Trading Company Limited consists of a marketing and purchasing arm of more than 850 independently owned pharmacies in Canada. The acquisition of Medicine Shoppe Canada Inc. consists of the franchise business of providing services to more than 160 independent pharmacies in Canada.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

The following table summarizes the preliminary recording of the fair values of the assets acquired and liabilities assumed as of the acquisition date:

<i>(In millions)</i>	Amounts Recognized as of Acquisition Date (Provisional)
Current assets, net of cash acquired	\$ 33
Goodwill	506
Intangible assets	441
Other long-term assets	15
Current liabilities	(37)
Long-term deferred tax liabilities	(39)
Net assets acquired, less cash and cash equivalents	<u>\$ 919</u>

Due to the recent timing of the acquisition, these amounts are subject to change within the measurement period as our fair value assessments are finalized.

Included in the purchase price allocation are acquired identifiable intangibles of \$441 million, the fair value of which was determined by using Level 3 inputs, which are estimated using significant unobservable inputs. Acquired intangibles primarily consist of \$317 million of service agreements and \$114 million of trademarks and trade names. Service agreements, trademarks and trade names and total acquired intangibles assets each has an estimated weighted average life of 20 years. The excess of the purchase price over the net tangible and intangible assets of approximately \$506 million was recorded as goodwill, which primarily reflects the expected future benefits to be realized upon integrating the business. The amount of goodwill expected to be deductible for tax purposes is \$287 million.

Financial results for the acquired Katz Assets were not included in the results of operations for 2012 as they were not material. These results will be included in the results of operations within our Canadian pharmaceutical distribution and services, which is part of our Distribution Solutions segment, beginning in the first quarter of 2013.

During the last three years, we also completed a number of other smaller acquisitions within both of our operating segments. Financial results for our business acquisitions have been included in our consolidated financial statements since their respective acquisition dates. Purchase prices for our business acquisitions have been allocated based on estimated fair values at the date of acquisition.

Goodwill recognized for our business acquisitions is generally not expected to be deductible for tax purposes. However, if we acquire the assets of a company, the goodwill may be deductible for tax purposes. The pro forma results of operations for our business acquisitions and the results of operations for these acquisitions since the acquisition date have not been presented because the effects were not material to the consolidated financial statements on either an individual or an aggregate basis.

3. Share-Based Compensation

We provide share-based compensation for our employees, officers and non-employee directors, including stock options, an employee stock purchase plan, restricted stock units ("RSUs") and performance-based restricted stock units ("PeRSUs") (collectively, "share-based awards"). Most of our share-based awards are granted in the first quarter of each fiscal year.

Compensation expense for the share-based awards is recognized for the portion of awards ultimately expected to vest. We estimate the number of share-based awards, which will ultimately vest primarily based on historical experience. The estimated forfeiture rate established upon grant is re-assessed throughout the requisite service period. As required, the forfeiture estimates are adjusted to reflect actual forfeitures when an award vests. The actual forfeitures in future reporting periods could be higher or lower than current estimates.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The compensation expense recognized has been classified in the consolidated statements of operations or capitalized on the consolidated balance sheets in the same manner as cash compensation paid to our employees. There was no material share-based compensation expense capitalized as part of the cost of an asset in 2012, 2011 and 2010.

Impact on Net Income

The components of share-based compensation expense and related tax benefits are as follows:

(In millions)	Years Ended March 31,		
	2012	2011	2010
RSUs ⁽¹⁾	\$ 97	\$ 79	\$ 47
PeRSUs ⁽²⁾	24	27	39
Stock options	23	22	19
Employee stock purchase plan	10	9	9
Share-based compensation expense	154	137	114
Tax benefit for share-based compensation expense ⁽³⁾	(55)	(48)	(41)
Share-based compensation expense, net of tax	\$ 99	\$ 89	\$ 73

(1) This expense was primarily the result of PeRSUs awarded in prior years, which converted to RSUs due to the attainment of goals during the applicable years' performance period.

(2) Represents estimated compensation expense for PeRSUs that are conditional upon attaining performance objectives during the current year's performance period.

(3) Income tax expense is computed using the tax rates of applicable tax jurisdictions. Additionally, a portion of pre-tax compensation expense is not tax-deductible.

Stock Plans

The 2005 Stock Plan provides our employees, officers and non-employee director's share-based long-term incentives. The 2005 Stock Plan permits the granting of up to 42.5 million shares in the form of stock options, restricted stock, RSUs, PeRSUs and other share-based awards. As of March 31, 2012, 9.3 million shares remain available for future grant under the 2005 Stock Plan.

Stock Options

Stock options are granted at no less than fair market value and those options granted under the 2005 Stock Plan generally have a contractual term of seven years and follow a four-year vesting schedule.

Compensation expense for stock options is recognized on a straight-line basis over the requisite service period and is based on the grant-date fair value for the portion of the awards that is ultimately expected to vest. We continue to use the Black-Scholes options-pricing model to estimate the fair value of our stock options. Once the fair value of an employee stock option is determined, current accounting practices do not permit it to be changed, even if the estimates used are different from actual. The options-pricing model requires the use of various estimates and assumptions as follows:

- Expected stock price volatility is based on a combination of historical volatility of our common stock and implied market volatility. We believe that this market-based input provides a better estimate of our future stock price movements and is consistent with employee stock option valuation considerations.
- Expected dividend yield is based on historical experience and investors' current expectations.
- The risk-free interest rate for periods within the expected life of the option is based on the constant maturity U.S. Treasury rate in effect at the time of grant.
- Expected life of the options is based primarily on historical employee stock option exercises and other behavior data and reflects the impact of changes in contractual life of current option grants compared to our historical grants.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Weighted-average assumptions used to estimate the fair value of employee stock options were as follows:

	Years Ended March 31,		
	2012	2011	2010
Expected stock price volatility	27%	29%	33%
Expected dividend yield	1.0%	1.1%	0.7%
Risk-free interest rate	2%	3%	2%
Expected life (in years)	5	5	5

The following is a summary of options outstanding at March 31, 2012:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Options Outstanding At Year End (In millions)	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Options Exercisable at Year End (In millions)	Weighted-Average Exercise Price
\$ 27.35 - \$ 41.02	3	3	\$ 38.09	1	\$ 36.52
\$ 41.03 - \$ 54.70	1	1	45.99	1	46.36
\$ 54.71 - \$ 68.37	3	4	63.01	2	61.20
\$ 68.38 - \$ 84.41	1	6	83.04	—	74.57
	8			4	

The following table summarizes stock option activity during 2012, 2011 and 2010:

(In millions, except per share data and years)	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ⁽²⁾
Outstanding, March 31, 2009	19	\$ 39.28	3	\$ 33
Granted	2	40.59		
Exercised	(5)	33.34		
Outstanding, March 31, 2010	16	\$ 41.26	3	\$ 394
Granted	1	67.95		
Exercised	(8)	37.63		
Outstanding, March 31, 2011	9	\$ 49.01	4	\$ 269
Granted	1	83.30		
Exercised	(2)	42.20		
Outstanding, March 31, 2012	8	\$ 56.88	4	\$ 226
Vested and expected to vest ⁽¹⁾	7	\$ 56.71	4	\$ 225
Vested and exercisable, March 31, 2012	4	49.86	3	142

⁽¹⁾ The number of options expected to vest takes into account an estimate of expected forfeitures.

⁽²⁾ The intrinsic value is calculated as the difference between the period-end market price of the Company's common stock and the exercise price of "in-the-money" options.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The following table provides data related to stock option activity:

<i>(In millions, except per share data and years)</i>	Years Ended March 31,		
	2012	2011	2010
Weighted-average grant date fair value per stock option	\$ 20.32	\$ 18.37	\$ 12.56
Aggregate intrinsic value on exercise	\$ 108	\$ 276	\$ 115
Cash received upon exercise	\$ 113	\$ 319	\$ 165
Tax benefits realized related to exercise	\$ 40	\$ 106	\$ 37
Total fair value of stock options vested	\$ 23	\$ 21	\$ 16
Total compensation cost, net of estimated forfeitures, related to unvested stock options not yet recognized, pre-tax	\$ 40	\$ 41	\$ 37
Weighted-average period in years over which stock option compensation cost is expected to be recognized	1	1	1

RSUs and PeRSUs

RSUs, which entitle the holder to receive at the end of a vesting term a specified number of shares of the Company's common stock, are accounted for at fair value at the date of grant. Total compensation expense for RSUs under our stock plans is determined by the product of the number of shares that are expected to vest and the grant date market price of the Company's common stock. The Compensation Committee determines the vesting terms at the time of grant. These awards generally vest in three to four years. We recognize expense for RSUs with a single vest date on a straight-line basis over the requisite service period. We have elected to expense the grant date fair value of RSUs with only graded vesting and service conditions on a straight-line basis over the requisite service period.

Non-employee directors receive an annual grant of RSUs, which vest immediately and are expensed upon grant. The director may choose to receive payment immediately or defer receipt of the underlying shares if they meet director stock ownership guidelines. At March 31, 2012, 128,000 RSUs for our directors are vested, but shares have not been issued.

PeRSUs are RSUs for which the number of RSUs awarded may be conditional upon the attainment of one or more performance objectives over a specified period. PeRSUs are accounted for as variable awards until the performance goals are reached and the grant date is established. Total compensation expense for PeRSUs is determined by the product of the number of shares eligible to be awarded and expected to vest, and the market price of the Company's common stock, commencing at the inception of the requisite service period. During the performance period, the compensation expense for PeRSUs is re-computed using the market price and the performance modifier at the end of a reporting period. At the end of the performance period, if the goals are attained, the awards are granted and classified as RSUs and accounted for on that basis. For PeRSUs granted during or prior to 2009, for which the related RSU grant has multiple vesting dates, we recognize the compensation expense of these awards on a graded vesting basis over the requisite aggregate service period of four years. For PeRSUs granted during or after 2009, for which the related RSU has a single vesting date, we recognize compensation expense of these awards on a straight-line basis over the requisite aggregate service period of four years.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The following table summarizes RSU activity during 2012, 2011 and 2010:

<i>(In millions, except per share data)</i>	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested, March 31, 2009	3	\$ 54.70
Granted	2	40.94
Vested	(1)	50.42
Nonvested, March 31, 2010	4	\$ 49.21
Granted	3	67.84
Vested	(1)	61.05
Nonvested, March 31, 2011	6	\$ 57.79
Granted	2	82.71
Vested	(1)	57.95
Nonvested, March 31, 2012	7	\$ 65.14

The following table provides data related to RSU activity:

<i>(Dollars in millions)</i>	Years Ended March 31,		
	2012	2011	2010
Total fair value of shares vested	\$ 44	\$ 43	\$ 74
Total compensation cost, net of estimated forfeitures, related to nonvested RSU awards not yet recognized, pre-tax	\$ 143	\$ 131	\$ 61
Weighted-average period in years over which RSU cost is expected to be recognized	3	2	2

In May 2011, the Compensation Committee approved 1 million PeRSU target share units representing the base number of awards that could be granted, if goals are attained, and would be granted in the first quarter of 2013 (the “2012 PeRSU”). These target share units are not included in the table above as they have not been granted in the form of RSUs. As of March 31, 2012, the total pre-tax compensation expense, net of estimated forfeitures, related to nonvested 2012 PeRSUs not yet recognized was approximately \$81 million, (based on the period-end market price of the Company’s common stock) and the weighted-average period over which the cost is expected to be recognized is 3 years.

Employee Stock Purchase Plan (“ESPP”)

The Company has an ESPP under which 16 million shares have been authorized for issuance. The ESPP allows eligible employees to purchase shares of our common stock through payroll deductions. The deductions occur over three-month purchase periods and the shares are then purchased at 85% of the market price at the end of each purchase period. Employees are allowed to terminate their participation in the ESPP at any time during the purchase period prior to the purchase of the shares. The 15% discount provided to employees on these shares is included in compensation expense. The shares related to funds outstanding at the end of a quarter are included in the calculation of diluted weighted average shares outstanding. These amounts have not been significant. In 2012, 2011 and 2010, 1 million shares were issued under the ESPP and 2 million shares remain available for issuance at March 31, 2012.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

4. Product Alignment and Asset Impairment Charges

During the third quarter of 2012, we approved a plan to align our hospital clinical and revenue cycle healthcare software products within our Technology Solutions segment. As part of this alignment strategy, we will be converging our core clinical and revenue cycle Horizon and Paragon product lines onto Paragon's Microsoft®-based platform over time. Additionally, we have stopped development of our Horizon Enterprise Revenue Management™ ("HzERM") software product. The plan resulted in a pre-tax charge of \$51 million in 2012, of which \$31 million was recorded to cost of sales and \$20 million was recorded to operating expenses within our Technology Solutions segment. The majority of these charges were incurred in the third quarter of 2012. The pre-tax charge includes \$24 million of non-cash asset impairment charges, primarily for the write-off of prepaid licenses and commissions and capitalized internal use software that were determined to be obsolete as they would not be utilized going forward, \$10 million for severance, \$7 million for customer allowances and \$10 million for other charges.

Our capitalized software held for sale is amortized over three years. At each balance sheet date, or earlier if an indicator of an impairment exists, we evaluate the recoverability of unamortized capitalized software costs based on estimated future undiscounted revenues net of estimated related costs over the remaining amortization period. At the end of the second quarter of 2010, our HzERM software product became generally available. In October 2010, we decreased our estimated revenues over the next 24 months for our HzERM software product and as a result, concluded that the estimated future revenues, net of estimated related costs, were insufficient to recover its carrying value. Accordingly, we recorded a \$72 million non-cash impairment charge in the second quarter of 2011 within our Technology Solutions segment's cost of sales to reduce the carrying value of the software product to its net realizable value.

5. Other Income, Net

<i>(In millions)</i>	Years Ended March 31,		
	2012	2011	2010
Interest income	\$ 19	\$ 18	\$ 16
Equity in earnings (loss), net ⁽¹⁾	9	(6)	6
Reimbursement of post-acquisition interest expense	—	16	—
Gain on sale of investment ⁽¹⁾	—	—	17
Impairment of an investment	(6)	—	—
Other, net	(1)	8	4
Total	\$ 21	\$ 36	\$ 43

⁽¹⁾ Recorded within our Distribution Solutions segment.

In 2011, other income, net included a credit of \$16 million representing the reimbursement of post-acquisition interest expense by the former shareholders of US Oncology, which is recorded in Corporate.

In 2010, we sold our 50% equity interest in McKesson Logistics Solutions LLC, a Canadian logistics company, for a pre-tax gain of \$17 million or \$14 million after-tax.

We evaluate our investments for impairment when events or changes in circumstances indicate that the carrying values of such investments may have experienced an other-than-temporary decline in value.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

6. Income Taxes

(In millions)	Years Ended March 31,		
	2012	2011	2010
Income from continuing operations before income taxes			
U.S.	\$ 1,316	\$ 1,161	\$ 1,340
Foreign	603	474	524
Total income from continuing operations before income taxes	\$ 1,919	\$ 1,635	\$ 1,864

The provision for income taxes related to continuing operations consists of the following:

(In millions)	Years Ended March 31,		
	2012	2011	2010
Current			
Federal	\$ 271	\$ 283	\$ 255
State and local	52	40	25
Foreign	28	54	44
Total current	351	377	324
Deferred			
Federal	129	121	269
State and local	29	1	13
Foreign	7	6	(5)
Total deferred	165	128	277
Income tax provision	\$ 516	\$ 505	\$ 601

In 2012, 2011 and 2010, income tax expense included \$66 million, \$34 million and \$7 million of net income tax benefits for discrete items, which primarily relate to the recognition of previously unrecognized tax benefits and accrued interest. Included in the 2012 discrete tax benefit, is a \$31 million credit to income tax expense as a result of the reversal of an income tax reserve relating to our AWP litigation.

We have received tax assessments of \$98 million from the U.S. Internal Revenue Service ("IRS") relating to 2003 through 2006. We disagree with a substantial portion of the tax assessments primarily relating to transfer pricing. We are pursuing administrative relief through the appeals process and an opening conference has been scheduled for May 15, 2012. We have also received assessments from the Canada Revenue Agency ("CRA") for a total of \$169 million related to transfer pricing for 2003 through 2007. Payments of most of the assessments to the CRA have been made to stop the accrual of interest. We have appealed the assessment for 2003 to the Tax Court of Canada and have filed a notice of objection for 2004 through 2007. The trial between McKesson Canada Corporation and the CRA, argued in the Tax Court of Canada, concluded in early February 2012, and we are waiting for the decision. We continue to believe in the merits of our tax positions and that we have adequately provided for any potential adverse results relating to these examinations in our financial statements. However, the final resolution of these issues could result in an increase or decrease to income tax expense.

In November 2011, the IRS began its examination of 2007 through 2009. We anticipate the audit fieldwork will last more than two years. In nearly all jurisdictions, the tax years prior to 2003 are no longer subject to examination.

Significant judgments and estimates are required in determining the consolidated income tax provision and evaluating income tax uncertainties. Although our major taxing jurisdictions are the U.S. and Canada, we are subject to income taxes in numerous foreign jurisdictions. Our income tax expense, deferred tax assets and liabilities and uncertain tax liabilities reflect management's best assessment of estimated current and future taxes to be paid. We believe that we have made adequate provision for all income tax uncertainties.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The reconciliation between our effective tax rate on income from continuing operations and statutory tax rate is as follows:

(In millions)	Years Ended March 31,		
	2012	2011	2010
Income tax provision at federal statutory rate	\$ 672	\$ 572	\$ 652
State and local income taxes net of federal tax benefit	57	33	25
Foreign income taxed at various rates	(176)	(105)	(144)
Unrecognized tax benefits and settlements	(18)	14	53
Tax credits	(13)	(16)	(8)
Other, net	(6)	7	23
Income tax provision	\$ 516	\$ 505	\$ 601

At March 31, 2012, undistributed earnings of our foreign operations totaling \$3.3 billion were considered to be permanently reinvested. No deferred tax liability has been recognized on the basis difference created by such earnings since it is our intention to utilize those earnings in the foreign operations as well as to fund certain research and development activities for an indefinite period of time. The determination of the amount of deferred taxes on these earnings is not practicable because the computation would depend on a number of factors that cannot be known until a decision to repatriate the earnings is made.

Deferred tax balances consisted of the following:

(In millions)	March 31,	
	2012	2011
Assets		
Receivable allowances	\$ 44	\$ 48
Deferred revenue	114	107
Compensation and benefit related accruals	447	409
AWP litigation accrual	175	97
Loss and credit carryforwards	400	494
Other	256	241
Subtotal	1,436	1,396
Less: valuation allowance	(101)	(99)
Total assets	1,335	1,297
Liabilities		
Inventory valuation and other assets	(1,635)	(1,450)
Fixed assets and systems development costs	(263)	(221)
Intangibles	(544)	(532)
Other	(53)	(58)
Total liabilities	(2,495)	(2,261)
Net deferred tax liability	\$ (1,160)	\$ (964)
Current net deferred tax liability	\$ (1,092)	\$ (1,036)
Long-term deferred tax asset	20	72
Long-term deferred tax liability	(88)	—
Net deferred tax liability	\$ (1,160)	\$ (964)

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

We have federal, state and foreign income tax net operating loss carryforwards of \$173 million, \$2,456 million and \$249 million. The federal and state net operating losses will expire at various dates from 2013 through 2032. Substantially all of our foreign net operating losses have indefinite lives. We believe that it is more likely than not that the benefit from certain state and foreign net operating loss carryforwards may not be realized. In recognition of this risk, we have provided valuation allowances of \$10 million and \$66 million on the deferred tax assets relating to these state and foreign net operating loss carryforwards. We also have federal and state capital loss carryforwards of \$9 million and \$28 million, which will expire at various dates from 2013 through 2017. We have provided valuation allowances of \$1 million on the deferred tax assets relating to the state capital loss carryforwards. Recognition of a deferred tax asset for excess tax benefits due to stock option exercises that have not yet been realized through a reduction in income taxes payable is prohibited. Such unrecognized deferred tax benefits totaled \$11 million as of March 31, 2012 and will be accounted for as a credit to shareholders' equity, if and when realized through a reduction in income taxes payable.

We also have federal and state income tax credit carryforwards of \$131 million, which are primarily federal alternative minimum tax credit carryforwards that have an indefinite life. However, we believe that it is more likely than not that the benefit from certain state tax credits of \$9 million may not be fully realized. In recognition of this risk, we have provided a valuation allowance of \$2 million. In addition, we have Canadian research and development credit carryforwards of \$13 million, and we believe it is more likely than not that these credits will be realized. The Canadian research and development credits will expire at various dates from 2029 to 2032.

The following table summarizes the activity related to our gross unrecognized tax benefits for the last three years:

<i>(In millions)</i>	Years Ended March 31,		
	2012	2011	2010
Unrecognized tax benefits at beginning of period	\$ 635	\$ 619	\$ 526
Additions based on tax positions related to prior years	11	32	50
Reductions based on tax positions related to prior years	(72)	(60)	(12)
Additions based on tax positions related to current year	37	50	72
Reductions based on settlements	(1)	(6)	(16)
Reductions based on the lapse of the applicable statutes of limitations	(15)	—	(1)
Unrecognized tax benefits at end of period	\$ 595	\$ 635	\$ 619

Of the total \$595 million in unrecognized tax benefits at March 31, 2012, \$387 million would reduce income tax expense and the effective tax rate if recognized. During the next twelve months, it is reasonably possible that audit resolutions, the expiration of statutes of limitations and tax accounting method changes could potentially reduce our unrecognized tax benefits by up to \$232 million. However, this amount may change because we continue to have ongoing negotiations with various taxing authorities throughout the year.

We report interest and penalties on tax deficiencies as income tax expense. At March 31, 2012, before any tax benefits, our accrued interest on unrecognized tax benefits amounted to \$140 million. We recognized an income tax expense of \$7 million, before any tax effect, related to interest in our consolidated statements of operations during 2012. We have no material amounts accrued for penalties.

7. Discontinued Operation

In July 2010, our Technology Solutions segment sold its wholly-owned subsidiary, McKesson Asia Pacific Pty Limited ("MAP"), a provider of phone and web-based healthcare services in Australia and New Zealand, for net sales proceeds of \$109 million. The divestiture generated a pre-tax and after-tax gain of \$95 million and \$72 million. As a result of the sale, we were able to utilize capital loss carry-forwards for which we previously recorded a valuation allowance of \$15 million. The release of the valuation allowance is included as a tax benefit in our after-tax gain on the divestiture. The after-tax gain on disposition was recorded as a discontinued operation in our consolidated statement of operations in 2011. The historical financial operating results and net assets of MAP were not material to our consolidated financial statements for all periods presented.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

8. Earnings Per Common Share

Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per common share are computed similar to basic earnings per common share except that it reflects the potential dilution that could occur if dilutive securities or other obligations to issue common stock were exercised or converted into common stock.

The computations for basic and diluted earnings per common share are as follows:

<i>(In millions, except per share amounts)</i>	Years Ended March 31,		
	2012	2011	2010
Income from continuing operations	\$ 1,403	\$ 1,130	\$ 1,263
Discontinued operation - gain on sale, net of tax	—	72	—
Net income	<u>\$ 1,403</u>	<u>\$ 1,202</u>	<u>\$ 1,263</u>
Weighted average common shares outstanding:			
Basic	246	258	269
Effect of dilutive securities:			
Options to purchase common stock	2	3	3
Restricted stock units	3	2	1
Diluted	<u>251</u>	<u>263</u>	<u>273</u>
Earnings per common share: ⁽¹⁾			
Basic			
Continuing operations	\$ 5.70	\$ 4.37	\$ 4.70
Discontinued operation, net	—	0.28	—
Total	<u>\$ 5.70</u>	<u>\$ 4.65</u>	<u>\$ 4.70</u>
Diluted			
Continuing operations	\$ 5.59	\$ 4.29	\$ 4.62
Discontinued operation, net	—	0.28	—
Total	<u>\$ 5.59</u>	<u>\$ 4.57</u>	<u>\$ 4.62</u>

⁽¹⁾ Certain computations may reflect rounding adjustments.

Potentially dilutive securities primarily include outstanding stock options, RSUs and PeRSUs. Approximately 4 million, 6 million and 8 million of potentially dilutive securities were excluded from the computations of diluted net earnings per common share in 2012, 2011 and 2010, as they were anti-dilutive.

9. Receivables, Net

<i>(In millions)</i>	March 31,	
	2012	2011
Customer accounts	\$ 8,562	\$ 7,982
Other	1,537	1,341
Total	10,099	9,323
Allowances	(122)	(136)
Net	<u>\$ 9,977</u>	<u>\$ 9,187</u>

Other receivables primarily include amounts due from suppliers and customer unbilled receivables. The allowances are primarily for estimated uncollectible accounts.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

10. Property, Plant and Equipment, Net

<i>(In millions)</i>	March 31,	
	2012	2011
Land	\$ 68	\$ 70
Building, machinery, equipment and other	2,107	1,973
Total property, plant and equipment	2,175	2,043
Accumulated depreciation	(1,132)	(1,052)
Property, plant and equipment, net	\$ 1,043	\$ 991

11. Goodwill and Intangible Assets, Net

Changes in the carrying amount of goodwill were as follows:

<i>(In millions)</i>	Distribution Solutions	Technology Solutions	Total
Balance, March 31, 2010	\$ 1,871	\$ 1,697	\$ 3,568
Goodwill acquired	819	8	827
Acquisition accounting and other adjustments	(32)	(13)	(45)
Foreign currency translation adjustments	4	10	14
Balance, March 31, 2011	\$ 2,662	\$ 1,702	\$ 4,364
Goodwill acquired	511	151	662
Acquisition accounting and other adjustments	20	—	20
Foreign currency translation adjustments	(3)	(11)	(14)
Balance, March 31, 2012	\$ 3,190	\$ 1,842	\$ 5,032

Information regarding intangible assets is as follows:

	March 31, 2012				March 31, 2011		
	Weighted Average Remaining Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<i>(Dollars in millions)</i>							
Customer lists	7	\$ 1,081	\$ (554)	\$ 527	\$ 1,057	\$ (444)	\$ 613
Service agreements	18	1,022	(52)	970	723	(11)	712
Trademarks and trade names	18	192	(38)	154	76	(31)	45
Technology	4	244	(190)	54	204	(170)	34
Other	8	76	(31)	45	76	(24)	52
Total		\$ 2,615	\$ (865)	\$ 1,750	\$ 2,136	\$ (680)	\$ 1,456

Amortization expense of intangible assets was \$191 million, \$132 million and \$121 million for 2012, 2011 and 2010. Estimated annual amortization expense of intangible assets is as follows: \$200 million, \$186 million, \$166 million, \$142 million and \$122 million for 2013 through 2017, and \$934 million thereafter. All intangible assets were subject to amortization as of March 31, 2012 and 2011.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

12. Debt and Financing Activities

(In millions)	March 31,	
	2012	2011
7.75% Notes due February 1, 2012	\$ —	\$ 399
5.25% Notes due March 1, 2013	500	499
6.50% Notes due February 15, 2014	350	350
3.25% Notes due March 1, 2016	598	598
5.70% Notes due March 1, 2017	499	499
7.50% Notes due February 15, 2019	349	349
4.75% Notes due March 1, 2021	598	598
7.65% Debentures due March 1, 2027	175	175
6.00% Notes due March 1, 2041	493	493
Other	18	44
Total debt	3,580	4,004
Less current portion	(508)	(417)
Total long-term debt	\$ 3,072	\$ 3,587

Senior Bridge Term Loan Facility

In connection with our execution of an agreement to acquire US Oncology, in November 2010 we entered into a \$2.0 billion unsecured Senior Bridge Term Loan Agreement (“Bridge Loan”). In December 2010, we reduced the Bridge Loan commitment to \$1.0 billion. On January 31, 2011, we borrowed \$1.0 billion under the Bridge Loan. On February 28, 2011, we repaid the funds obtained under the Bridge Loan with long-term debt, as further described below, and the Senior Bridge Term Loan Agreement was terminated. During the time it was outstanding, the Bridge Loan bore interest of 1.76%, which was based on the London Interbank Offered Rate plus a margin based on the Company’s credit rating. Bridge Loan fees in 2011 of \$25 million were included in interest expense.

US Oncology Debt Acquired

Upon our purchase of US Oncology in December 2010, we assumed the outstanding debt of US Oncology Holdings, Inc. and its wholly-owned subsidiary US Oncology, Inc. Immediately prior to our acquisition, US Oncology Holdings, Inc. called for redemption all of its outstanding Senior Unsecured Floating Rate Toggle Notes due 2012 and US Oncology, Inc. called for redemption all of its outstanding 9.125% Senior Secured Notes due 2017 and 10.75% Senior Subordinated Notes due 2014. In the fourth quarter of 2011, we paid interest of \$50 million and redeemed these notes, including the remaining accrued interest for \$1,738 million using cash on hand and borrowings under our Bridge Loan.

Long-Term Debt

On February 28, 2011, we issued 3.25% notes due March 1, 2016 in an aggregate principal amount of \$600 million, 4.75% notes due March 1, 2021 in an aggregate principal amount of \$600 million and 6.00% notes due March 1, 2041 in an aggregate principal amount of \$500 million. Interest is payable on March 1 and September 1 of each year beginning on September 1, 2011. We utilized net proceeds, after discounts and offering expenses, of \$1,673 million from the issuance of these notes (each note constitutes a “Series”) for general corporate purposes, including the repayment of borrowings under the Bridge Loan.

Each Series constitutes an unsecured and unsubordinated obligation of the Company and ranks equally with all of the Company’s existing and future unsecured and unsubordinated indebtedness outstanding from time-to-time. Each Series is governed by materially similar indentures and an officers’ certificate specifying certain terms of each Series.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Upon 30 days notice to holders of a Series, we may redeem that Series at any time prior to maturity, in whole or in part, for cash at redemption prices that include accrued and unpaid interest and a make-whole premium, as specified in the indenture and officers' certificate relating to that Series. In the event of the occurrence of both (1) a change of control of the Company and (2) a downgrade of a Series below an investment grade rating by each of Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Ratings Services within a specified period, an offer will be made to purchase that Series from the holders at a price in cash equal to 101% of the then outstanding principal amount of that Series, plus accrued and unpaid interest to, but not including, the date of repurchase. The indenture and the related officers' certificate for each Series, subject to the exceptions and in compliance with the conditions as applicable, specify that we may not incur liens, enter into sale and leaseback transactions or consolidate, merge or sell all or substantially all of our assets. The indentures also contain customary events and default provisions.

In February 2012, we repaid our \$400 million 7.75% Notes which had matured. In March 2010, we repaid our \$215 million 9.13% Series C Senior Notes which had matured.

Scheduled future payments of long-term debt are \$508 million in 2013, \$351 million in 2014, \$2 million in 2015, \$600 million in 2016, \$500 million in 2017 and \$1,619 million thereafter.

Accounts Receivable Sales Facility

In May 2011, we renewed our existing accounts receivable sales facility (the "Facility") for a one year period under terms substantially similar to those previously in place. The committed capacity of the Facility is \$1.35 billion, although, from time-to-time, the available amount of the Facility may be less than \$1.35 billion based on accounts receivable concentration limits and other eligibility requirements. The accounts receivable sales facility will expire in May 2012. We anticipate renewing the Facility before its expiration.

Through the Facility, McKesson Corporation, the parent company, transfers certain U.S. pharmaceutical trade accounts receivable on a non-recourse basis to a special purpose entity ("SPE"), which is a wholly-owned, bankruptcy-remote subsidiary of McKesson Corporation that is consolidated in our financial statements. This SPE then sells undivided interests in the pool of accounts receivable to third-party purchaser groups (the "Purchaser Groups"), which include financial institutions and commercial paper conduits.

Since April 1, 2010, transactions under the Facility have been accounted for as secured borrowings rather than asset sales primarily because the Company's retained interest in the pool of accounts receivable is subordinated to the Purchaser Groups to the extent there is any outstanding balance in the Facility. Consequently, the related accounts receivable continue to be recognized on our consolidated balance sheets and proceeds from the Purchaser Groups are shown as secured borrowings.

The Facility contains requirements relating to the performance of the accounts receivable and covenants relating to the SPE and the Company. If we do not comply with these covenants, our ability to use the Facility may be suspended and repayment of any outstanding balances under the Facility may be required. At March 31, 2012, we were in compliance with all covenants.

We continue servicing accounts receivable subject to the Facility. However, no servicing asset or liability is recorded at the time the Facility is utilized as there is no service fee or other income received and the costs of servicing the receivables subject to the Facility are not material. Servicing costs are recognized as incurred over the servicing period.

During 2012, we borrowed \$400 million under the Facility. There were no borrowings in 2011 under the Facility. At March 31, 2012, there were \$400 million in secured borrowings and \$400 million of related securitized accounts receivable outstanding, which are included in short-term borrowings and receivables in the consolidated balance sheets, under the Facility. At March 31, 2011, there were no secured borrowings or related securitized accounts receivables outstanding under the Facility. Fees and charges on the facility were \$6 million, \$9 million and \$11 million in 2012, 2011 and 2010 and were recorded as interest expense in 2012 and 2011 and in operating expenses in 2010. Should we default under the Facility, the Purchaser Groups are entitled to receive only collections on the accounts receivable owned by the SPE and in the amount necessary to recover the interest, fees and principal amounts due the Purchaser Groups under the terms of the Facility.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

The delinquency ratio for the qualifying receivables represented less than 1% of the total qualifying receivables as of March 31, 2012 and 2011.

Revolving Credit Facility

In September 2011, we renewed our existing syndicated \$1.3 billion five-year senior unsecured revolving credit facility, which was scheduled to mature in June 2012. This renewed credit facility has terms and conditions substantially similar to those previously in place and matures in September 2016. Borrowings under this renewed credit facility bear interest based upon either the London Interbank Offered Rate or a prime rate. There were no borrowings under this credit facility during 2012, 2011 and 2010. As of March 31, 2012 and 2011, there were no borrowings outstanding under this credit facility.

Commercial Paper

There were no commercial paper issuances during 2012, 2011 and 2010 and no amount outstanding at March 31, 2012 and 2011.

Debt Covenants

Our various borrowing facilities and long-term debt are subject to certain covenants. Our principal debt covenant is our debt to capital ratio under our unsecured revolving credit facility, which cannot exceed 56.5%. For the purpose of calculating this ratio, borrowings under the accounts receivable sales facility are excluded. If we exceed this ratio, repayment of debt outstanding under the revolving credit facility could be accelerated. As of March 31, 2012, we were in compliance with our financial covenants.

13. Variable Interest Entities

We are involved with VIEs, which we do not consolidate because we do not have the power to direct the activities that most significantly impact their economic performance and thus are not considered the primary beneficiary of the entities. Our relationships include equity investment, lending, leasing, contractual or other relationships with the VIEs. Our most significant relationships are with oncology and other specialty practices. Under these practice arrangements, we generally own or lease all of the real estate and the equipment used by the affiliated practices and manage the practices' administrative functions. Our maximum exposure to loss (regardless of probability) as a result of all VIEs was \$1.1 billion and \$1.2 billion at March 31, 2012 and 2011, which primarily represents the value of intangible assets related to service agreements and lease and loan receivables. These amounts exclude the customer loan guarantees discussed in Financial Note 18, "Financial Guarantees and Warranties." We believe that there is no material loss exposure on these assets or from these relationships.

14. Pension Benefits

We maintain a number of qualified and nonqualified defined benefit pension plans and defined contribution plans for eligible employees.

Defined Benefit Pension Plans

Eligible U.S. employees who were employed by the Company as of December 31, 1995 are covered under the Company-sponsored defined benefit retirement plan. In 1997, the plan was amended to freeze all plan benefits as of December 31, 1996. Benefits for the defined benefit retirement plan are based primarily on age of employees at date of retirement, years of creditable service and the average of the highest 60 months of pay during the 15 years prior to the plan freeze date. We also have defined benefit pension plans for eligible Canadian and United Kingdom employees as well as an unfunded nonqualified supplemental defined benefit plan for certain U.S. executives. Defined benefit plan assets and obligations are measured as of the Company's fiscal year-end.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The net periodic expense for our pension plans is as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2012	2011	2010
Service cost—benefits earned during the year	\$ 7	\$ 6	\$ 4
Interest cost on projected benefit obligation	31	31	35
Expected return on assets	(31)	(29)	(24)
Amortization of unrecognized actuarial loss, prior service costs and net transitional obligation	27	28	25
Net periodic pension expense	<u>\$ 34</u>	<u>\$ 36</u>	<u>\$ 40</u>

The projected unit credit method is utilized in measuring net periodic pension expense over the employees' service life for the U.S. pension plans. Unrecognized actuarial losses exceeding 10% of the greater of the projected benefit obligation or the market value of assets are amortized straight-line over the average remaining future service periods.

Information regarding the changes in benefit obligations and plan assets for our pension plans is as follows:

<i>(In millions)</i>	Years Ended March 31,	
	2012	2011
Change in benefit obligations		
Benefit obligation at beginning of period	\$ 625	\$ 593
Service cost	7	6
Interest cost	31	31
Actuarial loss	42	21
Benefit payments	(34)	(32)
Foreign exchange impact and other	(1)	6
Benefit obligation at end of period ⁽¹⁾	<u>\$ 670</u>	<u>\$ 625</u>
Change in plan assets		
Fair value of plan assets at beginning of period	\$ 416	\$ 391
Actual return on plan assets	12	40
Employer and participant contributions	17	11
Benefits paid	(34)	(32)
Foreign exchange impact and other	(1)	6
Fair value of plan assets at end of period	<u>\$ 410</u>	<u>\$ 416</u>
Funded status at end of period	\$ (260)	\$ (209)
Amounts recognized on the balance sheet		
Long-term assets	\$ —	\$ 4
Current liabilities	(13)	(4)
Long-term liabilities	(247)	(209)
Total	<u>\$ (260)</u>	<u>\$ (209)</u>

⁽¹⁾ The benefit obligation is the projected benefit obligation.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The accumulated benefit obligations for our pension plans were \$667 million at March 31, 2012 and \$622 million at March 31, 2011. The following table provides the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for all our pension plans with an accumulated benefit obligation in excess of plan assets.

<i>(In millions)</i>	March 31,	
	2012	2011
Projected benefit obligation	\$ 670	\$ 533
Accumulated benefit obligation	667	529
Fair value of plan assets	410	319

Amounts recognized in accumulated other comprehensive income consist of:

<i>(In millions)</i>	March 31,	
	2012	2011
Net actuarial loss	\$ 274	\$ 239
Prior service cost	1	2
Net transition obligation	1	1
Total	\$ 276	\$ 242

Other changes in plan assets and benefit obligations recognized in other comprehensive income during the reporting periods were as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2012	2011	2010
Net actuarial loss	\$ 61	\$ 10	\$ 59
Prior service credit	—	—	(2)
Amortization of:			
Net actuarial loss	(25)	(26)	(23)
Prior service cost	(2)	(2)	(2)
Total recognized in net periodic benefit cost and other comprehensive loss (income)	\$ 34	\$ (18)	\$ 32

We expect to amortize \$2 million of prior service cost and \$30 million of actuarial loss for the pension plans from stockholders' equity to pension expense in 2013. Comparable 2012 amounts were \$2 million and \$25 million.

Projected benefit obligations relating to our unfunded U.S. plans were \$167 million and \$154 million at March 31, 2012 and 2011. Pension obligations for our unfunded plans are funded based on the recommendations of independent actuaries.

Expected benefit payments for our pension plans are as follows: \$43 million, \$33 million, \$144 million, \$36 million and \$33 million for 2013 to 2017 and \$190 million for 2018 through 2022. Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service. Expected contributions to be made for our pension plans are \$38 million for 2013.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Weighted-average assumptions used to estimate the net periodic pension expense and the actuarial present value of benefit obligations were as follows:

	Years Ended March 31,		
	2012	2011	2010
Net periodic pension expense			
Discount rates	4.98%	5.30%	7.68%
Rate of increase in compensation	3.74	3.75	3.62
Expected long-term rate of return on plan assets	7.60	7.79	7.90
Benefit obligation			
Discount rates	4.23%	4.99%	5.33%
Rate of increase in compensation	3.56	3.74	3.75

Our U.S. defined benefit pension plan liabilities are valued using a discount rate based on a yield curve developed from a portfolio of high quality corporate bonds rated AA or better whose maturities are aligned with the expected benefit payments of our plans. For March 31, 2012, we used a weighted average discount rate of 4.15%, which represents a decrease of 73 basis points from our 2011 weighted-average discount rate of 4.88%.

Sensitivity to changes in the weighted-average discount rate for our U.S. pension plans is as follows:

(In millions)	One Percentage Point Increase	One Percentage Point Decrease
Increase (decrease) on projected benefit obligation	\$ (38)	\$ 44
Increase (decrease) on net periodic pension cost	(2)	3

Plan Assets

Investment Strategy: The overall objective for McKesson's pension plan assets is to generate long-term investment returns consistent with capital preservation and prudent investment practices, with a diversification of asset types and investment strategies. Periodic adjustments are made to provide liquidity for benefit payments and to rebalance plan assets to their target allocations.

The target allocations for plan assets at March 31, 2012 are 53% equity investments, 35% fixed income investments and 12% to all other types of investments including cash and cash equivalents. The target allocations for plan assets at March 31, 2011 were 61% equity investments, 32% fixed income investments and 7% to all other types of investments including cash and cash equivalents. Equity investments include common stock, preferred stock, and equity commingled funds. Fixed income investments include corporate bonds, government securities, mortgage-backed securities, asset-backed securities, other directly held fixed income investments, and fixed income commingled funds. Other investments include real estate funds, hedge funds, other commingled funds and cash and cash equivalents.

We develop our expected long-term rate of return assumption based on the projected performance of the asset classes in which plan assets are invested. Our target asset allocation was determined based on the liability and risk tolerance characteristics of the plans and at times may be adjusted to achieve our overall investment objectives.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Fair Value Measurements: The following tables represent our pension plan assets as of March 31, 2012 and 2011, using the fair value hierarchy by asset class. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on unadjusted quoted prices in active markets for identical assets. Level 2 refers to fair values estimated using significant other observable inputs and Level 3 includes fair values estimated using significant unobservable inputs.

(In millions)	March 31, 2012			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 14	\$ 14	\$ —	\$ 28
Equity securities:				
Common stock	100	—	—	100
Equity commingled funds	—	134	—	134
Fixed income securities:				
Government securities	—	11	—	11
Corporate bonds	—	48	—	48
Mortgage-backed securities	—	21	—	21
Asset-backed securities and other	—	20	—	20
Fixed income commingled funds	—	25	—	25
Other:				
Real estate funds	—	—	17	17
Other commingled funds	—	12	—	12
Total	<u>\$ 114</u>	<u>\$ 285</u>	<u>\$ 17</u>	<u>416</u>
Receivables ⁽¹⁾				6
Payables ⁽¹⁾				(12)
Total				<u>\$ 410</u>

⁽¹⁾ Represents pending trades at March 31, 2012.

(In millions)	March 31, 2011			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 14	\$ 31	\$ —	\$ 45
Equity securities:				
Common and preferred stock	104	1	—	105
Equity commingled funds	—	144	—	144
Fixed income securities:				
Government securities	—	20	—	20
Corporate bonds	—	26	—	26
Mortgage-backed securities	—	28	—	28
Asset-backed securities and other	—	19	—	19
Fixed income commingled funds	—	34	—	34
Other:				
Real estate funds	—	—	5	5
Hedge funds	—	—	5	5
Total	<u>\$ 118</u>	<u>\$ 303</u>	<u>\$ 10</u>	<u>431</u>
Receivables ⁽¹⁾				19
Payables ⁽¹⁾				(34)
Total				<u>\$ 416</u>

⁽¹⁾ Represents pending trades at March 31, 2011.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Cash and cash equivalents – Cash and cash equivalents include short-term investment funds that maintain daily liquidity and aim to have constant unit values of \$1.00. The funds invest in short-term fixed income securities and other securities with debt-like characteristics emphasizing short-term maturities and high credit quality. Directly held cash and cash equivalents are classified as Level 1 investments. Cash and cash equivalents include commingled funds, which have daily net asset values derived from the underlying securities; these are classified as Level 2 investments.

Common and preferred stock – This investment class consists of common and preferred shares issued by U.S. and non-U.S. corporations. Common shares are traded actively on exchanges and price quotes are readily available. Preferred shares may not be actively traded. Holdings of common shares are generally classified as Level 1 investments. Preferred shares are classified as Level 2 investments.

Equity commingled funds – Some equity investments are held in commingled funds, which have daily net asset values derived from quoted prices for the underlying securities in active markets; these are classified as Level 2 investments.

Fixed income securities — Government securities consist of bonds and debentures issued by central governments or federal agencies; corporate bonds consist of bonds and debentures issued by corporations; mortgage-backed securities consist of debt obligations secured by a mortgage or pool of mortgages; and asset-backed securities primarily consist of debt obligations secured by an asset or pool of assets other than mortgages. Inputs to the valuation methodology include quoted prices for similar assets in active markets, and inputs that are observable for the asset, either directly or indirectly, for substantially the full term of the asset. Multiple prices and price types are obtained from pricing vendors whenever possible, which enables cross-provider validations. The Company obtains an understanding of how these prices are derived, including the nature and observability of the inputs used in deriving such prices. Fixed income securities are generally classified as Level 2 investments.

Fixed income commingled funds – Some fixed income investments are held in commingled funds, which have daily net asset values derived from the underlying securities; these are classified as Level 2 investments.

Real estate funds – The value of the real estate funds is reported by the fund manager and is based on a valuation of the underlying properties. Inputs used in the valuation include items such as cost, discounted future cash flows, independent appraisals and market based comparable data. The real estate funds are classified as Level 3 investments.

Hedge funds – The hedge funds are invested in fund-of-fund structures and consist of multiple investments in interest and currency funds designed to hedge the risk of rate fluctuations. Given the complex nature of valuation and the broad spectrums of investments, the hedge funds are classified as Level 3 investments.

Other commingled funds – The other commingled funds are invested in equities, bonds, commodities, other alternative investments and cash and cash equivalents. These funds are valued generally based on the weekly net asset values derived from the quoted prices for the underlying securities in active markets and, for alternative investments, based on other complex valuation techniques. Other commingled funds are classified as Level 2 investments.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

The following table represents a reconciliation of Level 3 plan assets held during the years ended March 31, 2012 and 2011:

<i>(In millions)</i>	Real Estate Funds	Hedge Funds	Other	Total
Balance at March 31, 2010	\$ 19	\$ 5	\$ 2	\$ 26
Purchases, sales and settlements	(14)	—	—	(14)
Transfer in and/or out of Level 3	—	—	(2)	(2)
Balance at March 31, 2011	\$ 5	\$ 5	\$ —	\$ 10
Unrealized gain on plan assets still held	1	—	—	1
Purchases, sales and settlements	11	(5)	—	6
Balance at March 31, 2012	\$ 17	\$ —	\$ —	\$ 17

Concentration of Credit Risk: We evaluated our pension plans' asset portfolios for the existence of significant concentrations of credit risk as of March 31, 2012. Types of concentrations that were evaluated include investment funds that represented 10% or more of the pension plans' net assets. As of March 31, 2012 and 2011, 10% and 11% of our plan assets are comprised of Bartram International Fund, which predominantly holds actively traded stock.

Multiemployer Plans

We also contribute to a number of multiemployer pension plans under the terms of collective-bargaining agreements that cover union-represented employees. The risks of participating in these multiemployer plans are different from single-employer pension plans in the following aspects: (i) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers; (ii) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and (iii) if the Company chooses to stop participating in some of its multiemployer plans, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Actions taken by other participating employers may lead to adverse changes in the financial condition of a multiemployer benefit plan and our withdrawal liability and contributions may increase. Contributions to the plans and amounts accrued were not material for the years ended March 31, 2012, 2011, and 2010.

Defined Contribution Plans

We have a contributory profit sharing investment plan ("PSIP") for U.S. employees not covered by collective bargaining arrangements. Effective January 1, 2011, eligible employees may contribute to the PSIP up to 75% of their monthly eligible compensation for pre-tax contributions and up to 75% of compensation for catch-up contributions not to exceed IRS limits. The Company makes matching contributions in an amount equal to 100% of the employee's first 3% of pay contributed and 50% for the next 2% of pay contributed. The Company also may make an additional annual matching contribution for each plan year to enable participants to receive a full match based on their annual contribution.

The Company's leveraged employee stock ownership plan ("ESOP") had purchased an aggregate of 24 million shares of the Company's common stock since its inception. These purchases were financed by 10 to 20 year loans from or guaranteed by us. At March 31, 2010, there were no outstanding ESOP loans nor the related receivables from the ESOP as the ESOP fully repaid the loans during 2010. The loans were repaid by the ESOP from interest earnings on cash balances and common dividends on unallocated shares and Company cash contributions. The ESOP loan maturities and rates were identical to the terms of related Company borrowings. Stock was made available from the ESOP based on debt service payments on ESOP borrowings. In the first quarter of 2011, all of the 24 million common shares had been allocated to plan participants. In 2012, 2011 and 2009, the Company made contributions primarily in cash or with the issuance of treasury shares. Future PSIP contributions will be funded with cash or treasury shares.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

The McKesson Corporation PSIP was a member of the settlement class in the Consolidated Securities Litigation Action. On April 27, 2009, the court issued an order approving the distribution of the settlement funds. On October 9, 2009, the PSIP received approximately \$119 million of the Consolidated Securities Litigation Action proceeds. Approximately \$42 million of the proceeds were attributable to the allocated shares of McKesson common stock owned by the PSIP participants during the Consolidated Securities Litigation Action class-holding period and were allocated to the respective participants on that basis in the third quarter of 2010. Approximately \$77 million of the proceeds were attributable to the unallocated shares (the “Unallocated Proceeds”) of McKesson common stock owned by the PSIP in an ESOP suspense account. In accordance with the plan terms, the PSIP distributed all of the Unallocated Proceeds to current PSIP participants after the close of the plan year in April 2010. The receipt of the Unallocated Proceeds by the PSIP was reimbursement for the loss in value of the Company’s common stock held by the PSIP in its ESOP suspense account during the Consolidated Securities Litigation Action class-holding period and was not a contribution made by the Company to the PSIP or ESOP. Accordingly, there were no accounting consequences to the Company’s financial statements relating to the receipt of the Unallocated Proceeds by the PSIP.

As a result of the PSIP’s receipt of the Unallocated Proceeds, in 2010 the Company contributed \$1 million to the PSIP. Accordingly, the PSIP expense for 2010 was nominal. Commencing in 2011, the Company resumed its contributions to the PSIP.

PSIP expense by segment for the last three years was as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2012	2011	2010
Distribution Solutions	\$ 22	\$ 23	\$ —
Technology Solutions	30	32	1
Corporate	6	4	—
PSIP expense	<u>\$ 58</u>	<u>\$ 59</u>	<u>\$ 1</u>
Cost of sales ⁽¹⁾	\$ 17	\$ 17	\$ —
Operating expenses	41	42	1
PSIP expense	<u>\$ 58</u>	<u>\$ 59</u>	<u>\$ 1</u>

⁽¹⁾ Amounts recorded to cost of sales pertain solely to our McKesson Technology Solutions segment.

15. Postretirement Benefits

We maintain a number of postretirement benefits, primarily consisting of healthcare and life insurance (“welfare”) benefits, for certain eligible U.S. employees. Eligible employees consist of those who retired before March 31, 1999 and those who retired after March 31, 1999, but were an active employee as of that date, after meeting other age-related criteria. We also provide postretirement benefits for certain U.S. executives. Defined benefit plan obligations are measured as of the Company’s fiscal year-end.

The net periodic expense (income) for our postretirement welfare benefits is as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2012	2011	2010
Service cost—benefits earned during the year	\$ 2	\$ 1	\$ 1
Interest cost on accumulated benefit obligation	7	8	9
Amortization of unrecognized actuarial loss (gain) and prior service costs	(1)	(4)	(25)
Net periodic postretirement expense (income)	<u>\$ 8</u>	<u>\$ 5</u>	<u>\$ (15)</u>

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Information regarding the changes in benefit obligations for our postretirement welfare plans is as follows:

<i>(In millions)</i>	Years Ended March 31,	
	2012	2011
Benefit obligation at beginning of period	\$ 152	\$ 154
Service cost	2	1
Interest cost	7	8
Actuarial loss (gain)	(4)	2
Benefit payments	(13)	(13)
Benefit obligation at end of period	\$ 144	\$ 152

The components of the amount recognized in accumulated other comprehensive income for the Company's other postretirement benefits at March 31, 2012 and 2011 were net actuarial losses of \$2 million and \$5 million and net prior service credits of \$2 million and \$2 million. Other changes in benefit obligations recognized in other comprehensive income were net actuarial gain of \$3 million in 2012 and losses of \$6 million and \$51 million in 2011 and 2010.

We estimate that the amortization of the actuarial loss from stockholders' equity to other postretirement expense in 2013 will be \$1 million. Comparable 2012 amounts were \$1 million.

Other postretirement benefits are funded as claims are paid. Expected benefit payments for our postretirement welfare benefit plans, net of expected Medicare subsidy receipts of \$1 million annually, are as follows: \$11 million annually for 2013 to 2017 and \$50 million cumulatively for 2018 through 2022. Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service. Expected contributions to be made for our postretirement welfare benefit plans are \$13 million for 2013.

Weighted-average discount rates used to estimate postretirement welfare benefit expenses were 5.09%, 5.33% and 7.86% for 2012, 2011 and 2010. Weighted-average discount rates for the actuarial present value of benefit obligations were 4.44%, 5.09% and 5.33% for 2012, 2011 and 2010.

Actuarial gain or loss for the postretirement welfare benefit plan is amortized to income or expense over a three-year period. The assumed healthcare cost trends used in measuring the accumulated postretirement benefit obligation were 8.0% and 8.5% for prescription drugs, 7.5% and 7.5% for medical and 5.5% and 5.8% for dental in 2012 and 2011. For 2012, 2011 and 2010, a one-percentage-point increase or decrease in the assumed healthcare cost trend rate would not have a material impact on the postretirement benefit obligations.

16. Financial Instruments and Hedging Activities

At March 31, 2012 and 2011, the carrying amounts of cash and cash equivalents, restricted cash, marketable securities, receivables, drafts and accounts payable, short-term borrowings and other current liabilities approximated their estimated fair values because of the short maturity of these financial instruments. All highly liquid debt instruments purchased with original maturity of three months or less at the date of acquisition are included in cash and cash equivalents. Included in cash and cash equivalents at March 31, 2012 and 2011, were money market fund investments of \$0.8 billion and \$1.7 billion, which are reported at fair value. The fair value of these investments was determined by using quoted prices for identical investments in active markets, which are considered to be Level 1 inputs under the fair value measurements and disclosures guidance. The carrying value of all other cash equivalents approximates fair value due to their relatively short-term nature.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

The carrying amount and estimated fair value of our long-term debt and other financing was \$3.6 billion and \$4.1 billion at March 31, 2012 and \$4.0 billion and \$4.3 billion at March 31, 2011. The estimated fair value of our long-term debt and other financing was determined using quoted market prices and other inputs that were derived from available market information. These are considered to be Level 2 inputs under the fair value measurements and disclosure guidance, and may not be representative of actual values that could have been realized or that will be realized in the future.

In the normal course of business, we are exposed to interest rate changes and foreign currency fluctuations. At times we limit these risks through the use of derivatives such as interest rate swaps and forward foreign exchange contracts. In accordance with our policy, derivatives are only used for hedging purposes. We do not use derivatives for trading or speculative purposes.

Foreign currency rate risk

The majority of our operations are conducted in US dollars however, certain assets and liabilities, revenues and expense and purchasing activities are incurred in and exposed to other currencies. We have established certain foreign currency rate risk programs that manage the impact of foreign currency fluctuation. These programs are utilized on a transactional basis when we consider there to be a risk in fair value or volatility in cash flows. These programs reduce but do not entirely eliminate foreign currency rate risk. Currently, our foreign currency rate risk programs include:

In March 2012, we entered into a number of forward contracts to hedge Canadian dollar denominated cash flows. These contracts mature over a period of eight years and have a gross notional value of \$528 million. These contracts have been designated for hedge accounting and accordingly, changes in the contracts' fair value will be recorded to accumulated other comprehensive income and reclassified into earnings in the same period in which the hedged transaction affects earnings. At March 31, 2012, the fair value of these contracts was not material and no amounts were reclassified to earnings in 2012.

In 2012, we entered into a number of forward contracts to hedge British pound denominated cash flows. These contracts mature in 2013 and have a gross notional value of \$151 million. These contracts have not been designated for hedge accounting and accordingly, changes in these contracts' fair value are recorded directly in earnings. At March 31, 2012, the fair value of these contracts was not material and net gains or losses for the year ended March 31, 2012 were also not material.

The fair values of all derivatives are considered to be Level 2 inputs under the fair value measurements and disclosure guidance and may not be representative of actual values that could have been realized or that will be realized in the future.

17. Lease Obligations

We lease facilities and equipment almost solely under operating leases. At March 31, 2012, future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year for years ending March 31 are:

<i>(In millions)</i>	Noncancelable Operating Leases
2013	\$ 188
2014	157
2015	123
2016	92
2017	75
Thereafter	233
Total minimum lease payments ⁽¹⁾	\$ 868

⁽¹⁾ Minimum lease payments have not been reduced by minimum sublease rentals of \$74 million due under future noncancelable subleases.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

Rental expense under operating leases was \$240 million, \$157 million and \$154 million in 2012, 2011 and 2010. We recognize rent expense on a straight-line basis over the term of the lease, taking into account, when applicable, lessor incentives for tenant improvements, periods where no rent payment is required and escalations in rent payments over the term of the lease. Deferred rent is recognized for the difference between the rent expense recognized on a straight-line basis and the payments made per the terms of the lease. Remaining terms for facilities leases generally range from one to seven years, while remaining terms for equipment leases range from one to three years. Most real property leases contain renewal options (generally for five-year increments) and provisions requiring us to pay property taxes and operating expenses in excess of base period amounts. Sublease rental income was not material for 2012, 2011 and 2010.

18. Financial Guarantees and Warranties*Financial Guarantees*

We have agreements with certain of our Canadian customers' financial institutions under which we have guaranteed the repurchase of our customers' inventory or our customers' debt in the event these customers are unable to meet their obligations to those financial institutions. For our inventory repurchase agreement, among other requirements, inventories must be in resalable condition and any repurchase would be at a discount. The inventory repurchase agreements mostly range from one to two years. Customers' debt guarantees range from one to five years and were primarily provided to facilitate financing for certain customers. The majority of our customers' debt guarantees are secured by certain assets of the customer. We also have an agreement with one software customer that, under limited circumstances, may require us to secure standby financing. Because the amount of the standby financing is not explicitly stated, the overall amount of this guarantee cannot reasonably be estimated. At March 31, 2012, the maximum amounts of inventory repurchase guarantees and customers' debt guarantees were \$125 million and \$41 million, none of which had been accrued.

The expirations of the above noted financial guarantees are as follows: \$107 million, \$22 million, \$13 million, \$2 million and \$1 million from 2013 through 2017 and \$21 million thereafter.

In addition, at March 31, 2012, our banks and insurance companies have issued \$86 million of standby letters of credit and surety bonds, which were issued on our behalf mostly related to our customer contracts and in order to meet the security requirements for statutory licenses and permits, court and fiduciary obligations and our workers' compensation and automotive liability programs.

Our software license agreements generally include certain provisions for indemnifying customers against liabilities if our software products infringe a third party's intellectual property rights. To date, we have not incurred any material costs as a result of such indemnification agreements and have not accrued any liabilities related to such obligations.

In conjunction with certain transactions, primarily divestitures, we may provide routine indemnification agreements (such as retention of previously existing environmental, tax and employee liabilities) whose terms vary in duration and often are not explicitly defined. Where appropriate, obligations for such indemnifications are recorded as liabilities. Because the amounts of these indemnification obligations often are not explicitly stated, the overall maximum amount of these commitments cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of divestiture, we have historically not made significant payments as a result of these indemnification provisions.

Warranties

In the normal course of business, we provide certain warranties and indemnification protection for our products and services. For example, we provide warranties that the pharmaceutical and medical-surgical products we distribute are in compliance with the Food, Drug and Cosmetic Act and other applicable laws and regulations. We have received the same warranties from our suppliers, which customarily are the manufacturers of the products. In addition, we have indemnity obligations to our customers for these products, which have also been provided to us from our suppliers, either through express agreement or by operation of law.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

We also provide warranties regarding the performance of software and automation products we sell. Our liability under these warranties is to bring the product into compliance with previously agreed upon specifications. For software products, this may result in additional project costs, which are reflected in our estimates used for the percentage-of-completion method of accounting for software installation services within these contracts. In addition, most of our customers who purchase our software and automation products also purchase annual maintenance agreements. Revenues from these maintenance agreements are recognized on a straight-line basis over the contract period and the cost of servicing product warranties is charged to expense when claims become estimable. Accrued warranty costs were not material to the consolidated balance sheets.

19. Other Commitments and Contingent Liabilities

In addition to commitments and obligations in the ordinary course of business, we are subject to various claims, other pending and potential legal actions for damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of our business. As described below, many of these proceedings are at preliminary stages and many seek an indeterminate amount of damages.

When a loss is considered probable and reasonably estimable, we record a liability in the amount of our best estimate for the ultimate loss. However, the likelihood of a loss with respect to a particular contingency is often difficult to predict and determining a meaningful estimate of the loss or a range of loss may not be practicable based on the information available and the potential effect of future events and decisions by third parties that will determine the ultimate resolution of the contingency. Moreover, it is not uncommon for such matters to be resolved over many years, during which time relevant developments and new information must be reevaluated at least quarterly to determine both the likelihood of potential loss and whether it is possible to reasonably estimate a range of possible loss. When a loss is probable but a reasonable estimate cannot be made, disclosure of the proceeding is provided.

Disclosure also is provided when it is reasonably possible that a loss will be incurred or when it is reasonably possible that the amount of a loss will exceed the recorded provision. We review all contingencies at least quarterly to determine whether the likelihood of loss has changed and to assess whether a reasonable estimate of the loss or range of loss can be made. As discussed above, development of a meaningful estimate of loss or a range of potential loss is complex when the outcome is directly dependent on negotiations with or decisions by third parties, such as regulatory agencies, the court system and other interested parties. Such factors bear directly on whether it is possible to reasonably estimate a range of potential loss and boundaries of high and low estimates.

We are party to the legal proceedings described below. Unless otherwise stated, we are currently unable to estimate a range of reasonably possible losses for the unresolved proceedings described below. Should any one or a combination of more than one of these proceedings be successful, or should we determine to settle any or a combination of these matters, we may be required to pay substantial sums, become subject to the entry of an injunction or be forced to change the manner in which we operate our business, which could have a material adverse impact on our financial position or results of operations.

I. Average Wholesale Price Litigation

The following matters involve a benchmark referred to as “AWP,” which is utilized by some public and private payers to calculate a portion of the amount that pharmacies and other providers are reimbursed for dispensing certain covered prescription drugs.

A. In re McKesson Governmental Entities Average Wholesale Price Litigation

Commencing in May of 2008, a series of complaints were filed in the United States District Court for the District of Massachusetts by various public payers — governmental entities that paid a portion of the price of certain prescription drugs — alleging that in late 2001 the Company and First DataBank, Inc. (“FDB”), a publisher of pharmaceutical pricing information, conspired to improperly raise the published AWP for certain prescription drugs, and that this alleged conduct resulted in higher drug reimbursement payments by plaintiffs and others similarly situated. These actions were all consolidated under the caption *In re McKesson Governmental Entities Average Wholesale Price Litigation*. A description of the actions pending during fiscal year 2012 is as follows:

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***The Douglas County, Kansas Nationwide Class Action*

On August 7, 2008, an action was filed by the Board of County Commissioners of Douglas County, Kansas on behalf of itself and a purported national class of state, local and territorial governmental entities against the Company and FDB alleging violations of RICO and federal antitrust laws, and seeking treble damages, as well as injunctive relief, interest, attorneys' fees and costs of suit, all in unspecified amounts, *Board of County Commissioners of Douglas County, Kansas v. McKesson Corporation, et al.*, (No. 1:08-CV-11349-PBS) ("Douglas County, Kansas Action").

On December 24, 2008, an amended and consolidated class action complaint was filed abandoning the previously alleged antitrust claims, and adding as named plaintiffs the City of Panama City, Florida; the State of Oklahoma; the County of Anoka, Minnesota; Baltimore, Maryland; Columbia, South Carolina; and Goldsboro, North Carolina. On March 3, 2009, a second amended and consolidated class action complaint was filed, adding the State of Montana as a plaintiff, adding Montana state law claims, and adding a claim for tortious interference. On February 10, 2009, plaintiffs filed a notice of dismissal without prejudice of defendant FDB.

On May 20, 2009, an action was filed by Oakland County, Michigan and the City of Sterling Heights, Michigan against the Company as the sole defendant asserting claims under RICO, Michigan's Antitrust Reform Act, Michigan's Consumer Protection Act, California's antitrust statute, and for fraud, and seeking damages, treble damages, interest and attorneys' fees, all in unspecified amounts, *Oakland County, Michigan et al. v. McKesson Corporation*, (No. 1:09-CV-10843-PBS) ("Michigan Counties Action"). On August 4, 2009, the court granted the Company's motion to stay the Michigan Counties Action.

On March 4, 2011, the court entered an order granting, in part, and denying, in part, plaintiffs' motion for class certification in the Douglas County, Kansas Action. Specifically, the court certified a nationwide class comprised of all non-federal and non-state governmental entities for liability and equitable relief for the period from August 1, 2001, to June 2, 2005, and for damages for the period August 1, 2001, to December 31, 2003. On March 30, 2011, the court granted, in part, plaintiffs' motion for reconsideration by extending the liability-only class period from June 2, 2005, to October 6, 2006. On May 13, 2011, the United States Court of Appeals for the First Circuit denied the Company's petition and the plaintiffs' cross-petition seeking permission to appeal the district court's March 4, 2011 class certification order.

On June 28 and June 29, 2011, respectively, the Company executed settlement agreements with the States of Oklahoma and Montana with respect to the claims those States asserted on behalf of their respective Medicaid programs in the Douglas County, Kansas Action. On December 6, 2011, the Company executed a settlement agreement with the State of Oklahoma with respect to the claims it asserted on behalf of the Oklahoma State and Education Employees Group Insurance Board. Pursuant to these settlements, the court dismissed with prejudice all claims asserted by the States of Oklahoma and Montana in the Douglas County, Kansas Action.

On October 25, 2011, the Company executed a settlement agreement with the certified class of plaintiffs in the Douglas County, Kansas Action. The settlement provides that the Company will pay \$82 million in settlement of all claims on behalf of a nationwide class of cities, counties, and other non-federal and non-state governmental entities. The settlement amount of \$82 million is to be paid into a settlement escrow in installments following preliminary and final approvals of the settlement by the court. The escrow account shall be used for settlement administration costs, including notice, attorneys' fees as approved by the court, and the remainder will be distributed to class members in a manner determined by plaintiffs and subject to court approval. The settlement also provides that the settlement class will release all claims against the Company relating to FDB's allegedly inflated AWP's, whenever such claims were incurred, and includes an express denial of any liability on the part of the Company.

The court granted preliminary approval of the settlement on November 8, 2011, and, on April 19, 2012, the court granted final approval of the settlement and entered final judgment. To date, approximately \$32 million has been paid by the Company into the settlement escrow, and the balance of the \$82 million is expected to be paid into the settlement escrow during the first quarter of 2013.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

On January 5, 2012, the Company and the plaintiffs in the Michigan Counties Action filed a stipulated order of dismissal with prejudice, which the court entered on January 12, 2012, and which became effective upon the court granting final approval of the settlement in the Douglas County, Kansas Action on April 19, 2012.

State Medicaid AWP Cases

Beginning in September 2010, a series of suits were filed by individual states in jurisdictions other than the United States District Court for the District of Massachusetts based on essentially the same factual allegations as alleged in *In re McKesson Governmental Entities Average Wholesale Price Litigation*. A description of the actions pending during fiscal year 2012 is as follows:

The Kansas Action

On September 13, 2010, an action was filed in the Kansas state court of Wyandotte County by the State of Kansas against the Company and FDB asserting claims under Kansas's Restraint of Trade Act, Kansas's Consumer Protection Act, and Kansas's false claims statute, and for civil conspiracy, fraud, unjust enrichment, and breach of contract, and seeking damages, treble damages, civil penalties, as well as injunctive relief, interest, disgorgement of profits, attorneys' fees and costs of suit, all in unspecified amounts, *State of Kansas ex rel. Steve Six v. McKesson Corporation, et al.*, (No. 10CV1491). On February 24, 2011, the court denied the Company's motion to dismiss the State's complaint and set trial for August 7, 2012. On February 15, 2012, the court granted the Company's motion for a continuance and reset trial for May 28, 2013. Discovery is ongoing.

The Mississippi Action

On October 8, 2010, an action was filed in the Mississippi state court of Hinds County by the State of Mississippi against the Company as the sole defendant asserting claims under RICO, Mississippi's Medicaid Fraud Control Act, Mississippi's Consumer Protection Act, and for civil conspiracy, tortious interference with contract, unjust enrichment, and fraud, and seeking damages, treble damages, civil penalties, restitution, as well as injunctive relief, interest, attorneys' fees and costs of suit, all in unspecified amounts, *State of Mississippi v. McKesson Corporation, et al.*, (No. 251-10-862CIV). On November 9, 2010, the Company filed a Notice of Removal to the United States District Court, for the Southern District of Mississippi. On January 27, 2011, the case was remanded back to Mississippi state court after the State dismissed its RICO claim. On February 15, 2011, the Company filed a motion to transfer the Mississippi Action from the Circuit Court of Hinds County to the Chancery Court of Hinds County, or in the alternative, to dismiss the State's claim under Mississippi's Consumer Protection Act for lack of subject matter jurisdiction. On July 1, 2011, the court denied the Company's motion to transfer or, in the alternative, to dismiss. On July 22, 2011, the Company filed a petition with the Supreme Court of Mississippi seeking permission to appeal the trial court's July 1, 2011 order. On December 15, 2011, the Supreme Court of Mississippi denied the Company's petition but ordered the trial court to dismiss the State's claim under Mississippi's Consumer Protection Act. On July 26, 2011, a second amended complaint was filed that formally abandoned the previously alleged RICO claims and added claims on behalf of the Mississippi state employee health plan. On August 25, 2011, the Company filed a motion to dismiss the State's claim under Mississippi's Medicaid Fraud Control Act, which the court denied on March 12, 2012. On March 9, 2012, the Company filed a motion to extend the scheduling deadlines set by the court, including the trial date. On April 6, 2012, the parties filed a stipulated scheduling order requesting the court to continue the previously set trial date of November 26, 2012, to a date after March 1, 2013. The court has not yet ruled on this request. Discovery is ongoing.

The Alaska Action

On October 12, 2010, an action was filed in Alaska state court by the State of Alaska against the Company and FDB asserting claims under Alaska's unfair and deceptive trade practices statute, and for fraud and civil conspiracy, and seeking damages, treble damages, punitive damages, civil penalties, disgorgement of profits, as well as declaratory relief, interest, attorneys' fees and costs of suit, all in unspecified amounts, *State of Alaska v. McKesson Corporation, et al.*, (No. 3AN-10-11348-CI). On May 24, 2011, the court denied the Company's motion to dismiss the State's complaint. Discovery is ongoing, and trial is set for February 4, 2013.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***The Utah Action*

On October 20, 2010, an action was filed in the United States District Court for the Northern District of California by the State of Utah against the Company as the sole defendant asserting claims under RICO and for civil conspiracy, tortious interference with contract, and unjust enrichment, and seeking damages, treble damages, restitution, as well as injunctive relief, interest, attorneys' fees and costs of suit, all in unspecified amounts, *State of Utah v. McKesson Corporation, et al.*, (No. CV 10-4743-SC). On July 19, 2011, the court denied the Company's motion to dismiss the State's complaint. Discovery is ongoing, and trial is set for March 11, 2013.

The Arizona Administrative Proceeding

On November 5, 2010, the Company received a Notice of Proposed Civil Monetary Penalty from the Office of Inspector General for the Arizona Health Care Cost Containment System ("AHCCCS") purporting to initiate an administrative claim process against the Company, and seeking civil penalties in the amount of \$101 million and an assessment in the amount of \$112 million for false claims allegedly submitted to the Arizona Medicaid program (No. 2010-1218). On February 28, 2011, the Company filed a complaint in Arizona Superior Court, County of Maricopa, against AHCCCS and its Director, alleging that the administrative proceeding commenced by AHCCCS violates the Arizona Administrative Procedure Act and the Due Process Clauses of the Arizona Constitution and the United States Constitution, and seeking to enjoin AHCCCS's administrative proceeding, a declaratory judgment that AHCCCS lacks jurisdiction and legal authority to impose penalties or assessments against the Company, as well as costs of suit, *McKesson Corporation v. AHCCCS*, (No. CV-2011-004446). On April 28, 2011, the court ruled that AHCCCS has no jurisdiction to impose penalties or assessments against the Company and enjoined AHCCCS from prosecuting or reinitiating any penalty proceeding against the Company. On May 31, 2011, the court entered final judgment in favor of the Company. On June 16, 2011, AHCCCS filed a notice of appeal. The briefing on AHCCCS's appeal is complete, but a hearing date has not yet been set.

The Hawaii Action

On November 10, 2010, an action was filed in Hawaii state court by the State of Hawaii against the Company and FDB asserting claims under Hawaii's false claims statute, Hawaii's unfair and deceptive trade practices statute, and for fraud and civil conspiracy, and seeking damages, treble damages, punitive damages, civil penalties, disgorgement of profits, as well as interest, attorneys' fees and costs of suit, all in unspecified amounts, *State of Hawaii v. McKesson Corporation, et al.*, (CV. No. 10-1-2411-11-GWBC). On April 12, 2011, the court denied the Company's motion to dismiss the State's complaint. Discovery is ongoing, and trial is set for April 15, 2013.

The Louisiana Action

On December 20, 2010, an action was filed in Louisiana state court by the State of Louisiana against the Company as the sole defendant asserting claims under Louisiana's unfair and deceptive trade practices statute, Louisiana's Medical Assistance Programs Integrity Law, Louisiana's antitrust statute, and for fraud, negligent misrepresentation, civil conspiracy, and unjust enrichment, and seeking damages, statutory fines, civil penalties, disgorgement of profits, as well as interest, attorneys' fees and costs of suit, all in unspecified amounts, *State of Louisiana v. McKesson Corporation*, (No. C597634 Sec. 23). On June 2, 2011, the court granted the State's motion to consolidate for all purposes, including trial, the State's suit against the Company with the State's pending action against numerous drug manufacturers, *State of Louisiana v. Abbott Laboratories, Inc., et al.*, (No. C596164). On September 8, 2011, the trial court entered an order granting the State's motion to voluntarily dismiss its antitrust claims. The Louisiana Court of Appeals, on September 20, 2011, denied the Company's appeal challenging the trial court's June 2, 2011 consolidation order. On December 14, 2011, the trial court denied the Company's motion to dismiss the State's complaint. On December 19, 2011, the Company filed an application for a supervisory writ, with the Louisiana Court of Appeals, seeking to challenge the trial court's ruling that the State is the proper party to assert damages claims on behalf of Louisiana's Medicaid program, which application was denied. No trial date has been set.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***The Michigan Action*

On June 2, 2011, an action was filed in Michigan state court, County of Ingham, by the State of Michigan against the Company, FDB, and the Hearst Corporation asserting claims under Michigan's false claims statute, and for fraud based on false representation, silent fraud, civil conspiracy to commit fraud, tortious interference with contract, and unjust enrichment, and seeking damages, treble damages, civil penalties, restitution, disgorgement of profits, interest, attorneys' fees and costs of suit, all in unspecified amounts, *Bill Schuette ex rel. State of Michigan v. McKesson Corporation, et al.*, (11-629-CZ). On November 29, 2011, the court denied the Company's motion to dismiss the State's complaint. No trial date has been set.

The Virginia Action

On June 8, 2011, an action was filed in the United States District Court for the Northern District of California by the Commonwealth of Virginia against the Company and two of its employees asserting claims under RICO, Virginia's false claims statute, Virginia's fraud statute, and for conspiracy to defraud, and seeking damages, treble damages, civil penalties, interest, and costs of suit, all in unspecified amounts, *Commonwealth of Virginia v. McKesson Corporation, et al.*, (C11-02782-SI). On October 13, 2011, the court denied the Company's motion to dismiss the Commonwealth's complaint. Discovery is ongoing, and trial is set for March 11, 2013.

The Indiana Action

On July 13, 2011, the Company was named as a co-defendant to FDB in an action filed in Indiana state court, County of Marion, by the State of Indiana asserting claims under Indiana's false claims statute, Indiana's Medicaid fraud statute, Indiana's theft statute, and for fraud and civil conspiracy, and seeking damages, treble damages, civil penalties, disgorgement of profits, interest, injunctive and declaratory relief, attorneys' fees and costs of suit, all in unspecified amounts, *State of Indiana v. McKesson Corp. et al.*, (No. 49D11-1106-PL-021595). On January 20, 2012, the court granted, in part, and denied, in part, the Company's motion to dismiss the State's complaint. Specifically, the court dismissed without prejudice the State's claims under Indiana's Medicaid fraud statute and Indiana's theft statute, and for fraud. On February 21, 2012, a second amended complaint was filed asserting claims under Indiana's false claims statute, and for fraud and civil conspiracy. On March 22, 2012, McKesson moved to dismiss the fraud claim in the second amended complaint. Discovery is ongoing, and trial is set for April 7, 2014.

The Kentucky Action

On July 15, 2011, the Company was named as a co-defendant to FDB in an action filed in Kentucky state court, Franklin County, by the Commonwealth of Kentucky asserting claims under Kentucky's consumer protection statute, Kentucky's Medicaid fraud statute, Kentucky's theft by deception statute, Kentucky's false advertising statute, and for fraud, negligent misrepresentation, and civil conspiracy, and seeking damages, punitive damages, civil penalties, disgorgement of profits, interest, injunctive and declaratory relief, attorneys' fees and costs of suit, all in unspecified amounts, *Commonwealth of Kentucky v. McKesson Corp. et al.*, (No. 11-CI-00935). On March 12, 2012, the court held a hearing on the Company's motion to dismiss the Commonwealth's complaint but the court has not yet issued a ruling. No trial date has been set.

The Oregon Action

On November 11, 2011, an action was filed in the United States District Court for the Northern District of California by the State of Oregon against the Company as the sole defendant asserting claims under RICO, Oregon's RICO statute, and for unjust enrichment, civil conspiracy, tortious interference with contract, and fraud, and seeking damages, treble damages, punitive damages, a constructive trust, as well as interest, attorneys' fees and costs of suit, all in unspecified amounts, *State of Oregon v. McKesson Corporation*, No. C11-05384-SI. The Company filed an answer to the State's complaint on January 9, 2012. Discovery is ongoing, and trial is set for July 8, 2013.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)***B. The New Jersey United States Attorney's Office AWP Investigation*

In June 2007, the Company was informed that a relator had previously filed a *qui tam* action in the United States District Court for the District of New Jersey, purportedly on behalf of the United States, twelve states (California, Delaware, Florida, Hawaii, Illinois, Louisiana, Massachusetts, Nevada, New Mexico, Tennessee, Texas and Virginia) and the District of Columbia against the Company and seven other defendants. In January 2009, the Company was provided with a courtesy copy of the relator's third amended complaint, which alleges claims against the Company and seven other defendants under the False Claims Act and various state false claims statutes. The claims arise out of alleged manipulation of AWP by the defendants. This *qui tam* action is brought on behalf of the United States and various states, and seeks damages, treble damages and civil penalties, as well as attorneys' fees and costs of suit.

C. General

On January 30, 2012, the Company reached an agreement in principle with a coalition of State Attorneys General to resolve state Medicaid claims relating to AWP for payment by the Company of approximately \$173 million. This amount shall be reduced by the total amount allocated to any state that declines to subscribe to the settlement. This agreement is subject to execution of written settlement agreements acceptable to the Company and each participating state. Although the Company believes that there will be substantial participation by the states, the final level of participation is not yet known. The Company will continue to defend vigorously any action pursued by a non-settling state. The Company has fully reserved for the financial effect of this agreement in principle.

The Company has a reserve relating to AWP public entity claims, which is reviewed at least quarterly and whenever events or circumstances indicate changes, including consideration of the pace and progress of discussions relating to potentially resolving other public entity claims. Pre-tax charges relating to changes in the Company's AWP litigation reserve, including accrued interest, are recorded in the Distribution Solutions segment. The Company's AWP litigation reserve is included in other current liabilities in the consolidated balance sheets. In view of the number of outstanding cases and expected future claims, and the uncertainties of the timing and outcome of this type of litigation, it is possible that the ultimate costs of these matters may exceed or be less than the reserve.

The following is the activity related to the AWP litigation reserve for the years ended March 31, 2012, 2011 and 2010:

<i>(In millions)</i>	Years Ended March 31,		
	2012	2011	2010
AWP litigation reserve at beginning of period	\$ 330	\$ 143	\$ 143
Charges incurred	149	213	—
Payments made	(26)	(26)	—
AWP litigation reserve at end of period	\$ 453	\$ 330	\$ 143

The charges for 2012 primarily related to the Douglas County, Kansas Action settlement and the state and federal Medicaid claims. The charges for 2011 primarily related to the state and federal Medicaid claims.

On April 3, 2012, the Company entered into a settlement agreement with the United States Department of Justice to resolve the federal share of Medicaid claims related to AWP. The total settlement amount of \$191 million, which includes interest, was paid on April 9, 2012. Pursuant to the settlement agreement, the United States Department of Justice filed a notice seeking the dismissal with prejudice of the claims on behalf of the United States asserted by the relator in the *qui tam* action pending in New Jersey federal court to the extent those claims are encompassed by the settlement release in the parties' agreement.

McKESON CORPORATION

FINANCIAL NOTES (Continued)

II. Other Litigation and Claims

On October 3, 2008, the United States filed a complaint in intervention in a pending *qui tam* action in the United States District Court for the Northern District of Mississippi, naming as defendants, among others, the Company and its former indirect subsidiary, McKesson Medical-Surgical MediNet Inc. (“MediNet”), now merged into and doing business as McKesson Medical-Surgical MediMart Inc., *United States ex rel. Jamison v. McKesson Corporation, et al.*, (No. 2:08-CV-00214-SA). The United States (“USA”) alleges violations of the federal False Claims Act, 31 U.S.C. Sections 3729-33, in connection with billing and supply services rendered by MediNet to the long-term care facility operator co-defendants. The action seeks monetary damages in an unstated amount. On July 7, 2009, defendants filed motions to dismiss the action filed by the relator, arguing that the relator was not the original source of the claims which he attempts to pursue in his *qui tam* action. On March 25, 2010, the trial court granted defendants’ motions to dismiss the relator and his complaint, which ruling was later affirmed on appeal by the United States Court of Appeals for the Fifth Circuit. On June 2, 2010, the USA filed a motion for partial summary judgment, seeking a finding that the Company’s co-defendant, a Medicare Part B supplier, failed to comply with certain of the 21 Supplier Standards (“Standards”) established by federal regulations covering such Medicare suppliers, and that the relevant claims for which MediNet provided contract billing and/or supply services were rendered “false” by reason of such non-compliance. On July 2, 2010 the Company and MediNet filed their opposition to the USA’s motion and themselves moved for summary judgment as to certain counts based on numerous arguments, including that the USA cannot, as a matter of law, establish that the co-defendant Medicare Part B supplier failed to meet the Standards. On March 28, 2011, the trial court issued its order denying the motion of the USA and granting the partial summary judgment motions of the Company and its co-defendants on grounds that, as a matter of law, the Standards had not been violated. All causes of action based on the alleged failure to comply with the Standards were dismissed. In September of 2011, the Company and MediNet moved for summary judgment on the USA’s remaining causes of action which motions were denied on February 14, 2012. In its pretrial filings, the USA stated that it intends to seek damages, which after trebling as allowed by the False Claims Act, total \$82 million, and will additionally seek between \$407 million to \$814 million in fines and penalties. The McKesson defendants strongly dispute any liability, disagree with those claims for damages, fines and penalties and, based on experience, believe that such claimed damages amounts are not meaningful indicators of potential liability. On February 21, 2012, a non-jury trial commenced. On March 8, 2012, the court set April 30, 2012 for the continuation of the trial to allow the USA to present its revised claim for damages which the USA represented at trial would be reduced from the amounts stated in pretrial filings. No rulings on liability or damages have been made yet.

As previously reported, the Company’s subsidiary, McKesson Medical-Surgical Inc. (“MMS”), has been named as a defendant in multiple cases pending in Nevada state court alleging that plaintiffs contracted Hepatitis C after being administered the drug Propofol during medical procedures conducted by third parties. All but seven cases have been settled with no contribution from MMS, including the previously reported case with a jury verdict against MMS for \$6 million in compensatory damages and \$18 million in punitive damages. Of the seven remaining cases, the next trial date is January 2013.

Our subsidiary, Northstar Rx LLC, is one of multiple defendants in approximately 425 active cases alleging that plaintiffs were injured after ingesting Reglan and/or its generic equivalent, metoclopramide. There are an additional 52 cases in California, currently stayed, involving over 2,000 plaintiffs. The cases usually include state law claims for strict liability, failure to warn, negligence, and breach of warranty. Most of these cases are pending in state courts in Pennsylvania, California and New Jersey, with other cases pending in Alabama, Louisiana, Missouri, Mississippi, Oregon and Tennessee. Northstar Rx’s insurers are providing coverage for these cases. The Company believes that all of these cases are subject to dismissal pursuant to the U.S. Supreme Court’s 2011 ruling in *Pliva, Inc. v. Mensing*, which barred certain types of claims involving generic pharmaceuticals. The Company is also named in approximately 850 cases as a distributor of these products.

On January 4, 2011, the Company was served with a *qui tam* complaint that was originally filed in November 2005 in the United States District Court for the Eastern District of Pennsylvania by a relator, a former employee of a Johnson & Johnson affiliate, against the Company, Johnson & Johnson and its affiliate companies, and Omnicare, Inc., alleging that the Company received illegal “kickbacks” from the Johnson & Johnson defendants in violation of the federal Anti-Kickback Statute, the False Claims Act and various state false claims statutes, and seeking damages, treble damages, civil penalties, interest, attorneys’ fees and costs of suit, all in unspecified amounts, *United States ex rel. Scott Bartz v. Ortho McNeil Pharmaceuticals, Inc., et al.*, (No. 2:05-cv-06010). The United States declined to intervene in the suit.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

On February 23, 2011, the case was transferred to the District of Massachusetts. On May 27, 2011, the Company filed a motion to dismiss the relator's complaint. On June 10, 2011, the relator filed a notice of intent to voluntarily dismiss the Company from the action, subject to approval by the United States and the various states on whose behalf the relator filed suit. On March 2, 2012, the court granted, in part, and denied, in part, the Johnson & Johnson defendants' motion to dismiss. Specifically, the court ruled that it lacked jurisdiction over the relator's claims under the False Claims Act, and it declined to exercise supplemental jurisdiction over the relator's claims under various state false claims statutes. On April 19, 2012, the Court granted the relator's unopposed motion to dismiss the Company from the action.

III. Government Investigations and Subpoenas

From time-to-time, the Company receives subpoenas or requests for information from various government agencies. The Company generally responds to such subpoenas and requests in a cooperative, thorough and timely manner. These responses sometimes require considerable time and effort and can result in considerable costs being incurred by the Company. Such subpoenas and requests also can lead to the assertion of claims or the commencement of civil or criminal legal proceedings against the Company and other members of the health care industry, as well as to settlements. Examples of such requests and subpoenas include the following two items.

First, prior to its recent acquisition by the Company, US Oncology was informed that the United States Federal Trade Commission ("FTC") and the Attorney General for the State of Texas ("Texas AG") had opened investigations to determine whether a transaction in which certain Austin, Texas based oncology physicians became employees of an existing Texas US Oncology affiliated oncology practice group violated relevant state or federal antitrust laws. US Oncology has responded to requests for information from the government agencies and the Company has continued to cooperate with the FTC and the Texas Attorney General regarding these investigations. US Oncology has reached an agreement with the Texas AG fully resolving its inquiry, and the FTC has informed US Oncology that it has closed its file regarding the matter.

Second, the Company has been informed of an investigation by the Regie de l'assurance maladie Du Quebec ("RAMQ") to which the Company's subsidiary, McKesson Canada Corporation ("MCC"), has responded. RAMQ is a provincial government agency with administrative authority over the conduct of pharmaceutical businesses in Quebec Province. MCC has cooperated fully with the investigation which has been conducted, with substantial interruptions, from 2009 through the present. The Company believes that the investigation is focused on certain discounts and payments offered to pharmacies in the Quebec Province.

IV. Environmental Matters

Primarily as a result of the operation of the Company's former chemical businesses, which were fully divested by 1987, the Company is involved in various matters pursuant to environmental laws and regulations. The Company has received claims and demands from governmental agencies relating to investigative and remedial actions purportedly required to address environmental conditions alleged to exist at eight sites where it, or entities acquired by it, formerly conducted operations and the Company, by administrative order or otherwise, has agreed to take certain actions at those sites, including soil and groundwater remediation. In addition, the Company is one of multiple recipients of a New Jersey Department of Environmental Protection Agency directive and a separate United States Environmental Protection Agency directive relating to potential natural resources damages ("NRD") associated with one of these eight sites. Although the Company's potential allocation under either directive cannot be determined at this time, it has agreed to participate with a potentially responsible party ("PRP") group in the funding of an NRD assessment, the costs of which are reflected in the aggregate estimates set forth below.

Based on a determination by the Company's environmental staff, in consultation with outside environmental specialists and counsel, the current estimate of the Company's probable loss associated with the remediation costs for these eight sites is \$7 million, net of approximately \$1.7 million that third parties have agreed to pay in settlement or is expected, based either on agreements or nonrefundable contributions which are ongoing, to be contributed by third parties. The \$7 million is expected to be paid out between April 2012 and March 2032. The Company's estimated probable loss for these environmental matters has been entirely accrued for in the accompanying consolidated balance sheets.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

In addition, the Company has been designated as a PRP under the Superfund law for environmental assessment and cleanup costs as the result of its alleged disposal of hazardous substances at 13 sites. With respect to these sites, numerous other PRPs have similarly been designated and while the current state of the law potentially imposes joint and several liability upon PRPs, as a practical matter, costs of these sites are typically shared with other PRPs. At one of these sites, the United State Environmental Protection Agency has recently selected a preferred remedy with an estimated cost of approximately \$70 million. It is not certain at this point in time what proportion of this estimated liability will be borne by the Company or by the other PRPs. Accordingly, the Company's estimated probable loss at those 13 sites is approximately \$1 million, which has been entirely accrued for in the accompanying consolidated balance sheets. The aggregate settlements and costs paid by the Company in Superfund matters to date have not been significant.

V. Other Matters

The Company is involved in various other litigation and governmental proceedings, not described above, that arise in the normal course of business. While it is not possible to determine the ultimate outcome or the duration of any such litigation or governmental proceedings, the Company believes, based on current knowledge and the advice of counsel, that such litigation and proceedings will not have a material impact on the Company's financial position or results of operations.

20. Stockholders' Equity

Each share of the Company's outstanding common stock is permitted one vote on proposals presented to stockholders and is entitled to share equally in any dividends declared by the Company's Board of Directors (the "Board").

In April 2011, the quarterly dividend was raised from \$0.18 to \$0.20 per common share for dividends declared after such date, until further action by the Board. Dividends were \$0.80 per share in 2012, \$0.72 per share in 2011 and \$0.48 per share in 2010. The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon the Company's future earnings, financial condition, capital requirements and other factors.

Share Repurchases

Stock repurchases may be made from time-to-time in open market transactions, privately negotiated transactions, through accelerated share repurchase ("ASR") programs, or by any combination of such methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations and other market and economic conditions.

The Board authorized the repurchase of the Company's common stock as follows: \$1.0 billion in April 2010, \$1.0 billion in October 2010, \$1.0 billion in April 2011 and \$650 million in January 2012.

Total share repurchases transacted through ASR programs and open market transactions over the last three years were as follows:

<i>(In millions, except per share data)</i>	Years Ended March 31,		
	2012	2011	2010
Number of shares repurchased ⁽¹⁾	20	29	8
Average price paid per share	\$ 83.47	\$ 69.62	\$ 41.47
Total value of shares repurchased	\$ 1,850	\$ 2,032	\$ 299

⁽¹⁾ Excludes shares surrendered for tax withholding.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)**

In 2012 and 2011, the majority of our share repurchases were transacted through a number of ASR programs with third party financial institutions as follows: \$1.0 billion in May 2010, \$275 million in March 2011, \$650 million in May 2011 and \$1.2 billion in March 2012. In 2010, all of our share repurchases were conducted through open market transactions. All programs were funded with cash on hand.

In March 2012, we entered into an ASR program with a third party financial institution to repurchase \$1.2 billion of the Company's common stock. As of March 31, 2012, we had received 12 million shares representing the minimum number of shares due under this program, and the average price paid per share of \$87.19 was based on the average daily volume-weighted average price of our common stock less a discount calculated as of March 31, 2012. The total number of shares to be ultimately repurchased by us and the final settlement price per share will be determined at the completion of this program based on the average daily volume-weighted average price of our common stock during the program, less a discount. This program is anticipated to be completed no later than the second quarter of 2013.

In April 2012, the Board authorized the repurchase of an additional \$700 million of the Company's common stock, bringing the total authorization outstanding to \$1.0 billion.

Accumulated Other Comprehensive Income

Information regarding our accumulated other comprehensive income is as follows:

<i>(In millions)</i>	March 31,	
	2012	2011
Unrealized net loss and other components of benefit plans, net of tax	\$ (178)	\$ (157)
Translation adjustments	188	244
Unrealized losses on derivative instruments, net of tax	(5)	—
Total	\$ 5	\$ 87

21. Related Party Balances and Transactions

Notes receivable outstanding from certain of our current and former officers totaled \$15 million at March 31, 2012 and 2011. These notes related to purchases of common stock under our various employee stock purchase plans. The notes bear interest at rates ranging from 4.7% to 7.1% and were due at various dates through February 2004. Interest income on these notes is recognized only to the extent that cash is received. These notes, which are included in other capital in the consolidated balance sheets, were issued for amounts equal to the market value of the stock on the date of the purchase and are at full recourse to the borrower. At March 31, 2012, the value of the underlying stock collateral was \$15 million. The collectability of these notes is evaluated on an ongoing basis. At March 31, 2012 and 2011, we provided a reserve of nil and approximately \$1 million for the outstanding notes.

We incurred \$10 million in 2012 and \$11 million in 2011 and 2010 of annual rental expense paid to an equity-held investment.

McKESSON CORPORATION**FINANCIAL NOTES (Continued)****22. Segments of Business**

We report our operations in two operating segments: McKesson Distribution Solutions and McKesson Technology Solutions. The factors for determining the reportable segments included the manner in which management evaluates the performance of the Company combined with the nature of the individual business activities. We evaluate the performance of our operating segments on a number of measures, including operating profit before interest expense, income taxes and results from discontinued operations.

The Distribution Solutions segment distributes ethical and proprietary drugs, medical-surgical supplies and equipment and health and beauty care products throughout North America. This segment also provides specialty pharmaceutical solutions for biotech and pharmaceutical manufacturers, sells financial, operational and clinical solutions for pharmacies (retail, hospital, alternate site) and provides consulting, outsourcing and other services. This segment includes a 49% interest in Nadro, S.A. de C.V. ("Nadro"), one of the leading pharmaceutical distributors in Mexico.

The Technology Solutions segment delivers enterprise-wide clinical, patient care, financial, supply chain, strategic management software solutions, pharmacy automation for hospitals, as well as connectivity, outsourcing and other services, including remote hosting and managed services, to healthcare organizations. This segment also includes our Payer group of businesses, which includes our InterQual® clinical criteria solution, medical management tools, claims payment solutions, network performance tools and care management programs. The segment's customers include hospitals, physicians, homecare providers, retail pharmacies and payers from North America, the United Kingdom, Ireland, other European countries and Israel.

Revenues for our Technology Solutions segment are classified in one of three categories: services, software and software systems and hardware. Services revenues primarily include fees associated with installing our software and software systems, as well as revenues associated with software maintenance and support, remote processing, disease and medical management, and other outsourcing and professional services. Software and software systems revenues primarily include revenues from licensing our software and software systems, including the segment's clinical auditing and compliance and InterQual® businesses.

Corporate includes expenses associated with Corporate functions and projects and the results of certain equity-held investments. Corporate expenses are allocated to the operating segments to the extent that these items can be directly attributable to the segment.

Effective April 1, 2011, we centralized certain information technology functions from our operating segments to Corporate. Corporate now manages, provides and charges these services to our operating segments. As a result of this centralization, certain assets were transferred from our Distribution Solutions segment to Corporate effective April 1, 2011. Segment depreciation and amortization, expenditures for long-lived assets and assets have been recast for 2011 and 2010 to reflect the change in the composition of our operating segments. There was no material change in segment revenue or operating profit as a result of this change.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Financial information relating to our reportable operating segments and reconciliations to the consolidated totals is as follows:

(In millions)	Years Ended March 31,		
	2012	2011	2010
Revenues			
Distribution Solutions ⁽¹⁾			
Direct distribution & services	\$ 85,523	\$ 77,554	\$ 72,210
Sales to customers' warehouses	20,453	18,631	21,435
Total U.S. pharmaceutical distribution & services	105,976	96,185	93,645
Canada pharmaceutical distribution & services	10,303	9,784	9,072
Medical-Surgical distribution & services	3,145	2,920	2,861
Total Distribution Solutions	119,424	108,889	105,578
Technology Solutions			
Services	2,594	2,483	2,439
Software & software systems	596	590	571
Hardware	120	122	114
Total Technology Solutions	3,310	3,195	3,124
Total	\$ 122,734	\$ 112,084	\$ 108,702
Operating profit			
Distribution Solutions ⁽²⁾	\$ 2,219	\$ 1,897	\$ 1,988
Technology Solutions ⁽³⁾	364	301	385
Total	2,583	2,198	2,373
Corporate	(413)	(341)	(342)
Litigation credit, net	—	—	20
Interest expense	(251)	(222)	(187)
Income from continuing operations before income taxes	\$ 1,919	\$ 1,635	\$ 1,864
Depreciation and amortization ^{(4) (5)}			
Distribution Solutions	\$ 225	\$ 167	\$ 154
Technology Solutions	209	209	212
Corporate	117	120	111
Total	\$ 551	\$ 496	\$ 477
Expenditures for long-lived assets ^{(5) (6)}			
Distribution Solutions	\$ 175	\$ 158	\$ 90
Technology Solutions	22	26	31
Corporate	28	49	78
Total	\$ 225	\$ 233	\$ 199
Segment assets, at year end ⁽⁵⁾			
Distribution Solutions	\$ 25,374	\$ 22,732	\$ 19,599
Technology Solutions	3,575	3,504	3,635
Total	28,949	26,236	23,234
Corporate			
Cash and cash equivalents	3,149	3,612	3,731
Other	995	1,038	1,224
Total	\$ 33,093	\$ 30,886	\$ 28,189

(1) Revenues derived from services represent less than 2% of this segment's total revenues for 2012, 2011 and 2010.

(2) Operating profit for 2012 and 2011 includes AWP litigation charges of \$149 million and \$213 million, which were recorded in operating expenses. Operating profit for 2011 includes the receipt of \$51 million representing our share of a settlement of an antitrust class action lawsuit brought against a drug manufacturer, which was recorded as a reduction to cost of sales.

(3) Operating profit for 2012 includes product alignment charges of \$51 million. Operating profit for 2011 includes a \$72 million asset impairment charge for capitalized software held for sale, which was recorded in cost of sales.

(4) Amounts primarily include amortization of acquired intangible assets purchased in connection with acquisitions, capitalized software held for sale and capitalized software for internal use.

(5) Amounts have been recast for 2011 and 2010 to reflect the transfer of assets from our Distribution Solutions segment to Corporate effective April 1, 2011.

(6) Long-lived assets consist of property, plant and equipment.

McKESSON CORPORATION

FINANCIAL NOTES (Continued)

Revenues and property, plant and equipment by geographic areas were as follows:

(In millions)	Years Ended March 31,		
	2012	2011	2010
Revenues			
United States	\$ 112,230	\$ 102,089	\$ 99,387
International	10,504	9,995	9,315
Total	<u>\$ 122,734</u>	<u>\$ 112,084</u>	<u>\$ 108,702</u>
Property, plant and equipment, net, at year end			
United States	\$ 952	\$ 901	\$ 764
International	91	90	87
Total	<u>\$ 1,043</u>	<u>\$ 991</u>	<u>\$ 851</u>

International operations primarily consist of our operations in Canada, the United Kingdom, Ireland, other European countries, Asia Pacific and Israel. We also have an equity-held investment (Nadro) in Mexico. Net revenues were attributed to geographic areas based on the customers' shipment locations.

23. Quarterly Financial Information (Unaudited)

(In millions, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2012				
Revenues	\$ 29,980	\$ 30,216	\$ 30,839	\$ 31,699
Gross profit	1,509	1,647	1,566	1,845
Net income ⁽¹⁾⁽²⁾	286	296	300	521
Earnings per common share ⁽¹⁾⁽²⁾⁽⁶⁾				
Diluted	\$ 1.13	\$ 1.18	\$ 1.20	\$ 2.09
Basic	1.15	1.20	1.22	2.14
Fiscal 2011				
Revenues	\$ 27,450	\$ 27,534	\$ 28,247	\$ 28,853
Gross profit	1,392	1,366	1,461	1,751
Net income ⁽¹⁾⁽³⁾⁽⁴⁾⁽⁵⁾	298	327	155	422
Earnings per common share ⁽¹⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾				
Diluted				
Continuing operations	\$ 1.10	\$ 0.97	\$ 0.60	\$ 1.62
Discontinued operation ⁽⁵⁾	—	0.28	—	—
Total	<u>\$ 1.10</u>	<u>\$ 1.25</u>	<u>\$ 0.60</u>	<u>\$ 1.62</u>
Earnings per common share ⁽¹⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾				
Basic				
Continuing operations	\$ 1.12	\$ 0.99	\$ 0.61	\$ 1.65
Discontinued operation ⁽⁵⁾	—	0.28	—	—
Total	<u>\$ 1.12</u>	<u>\$ 1.27</u>	<u>\$ 0.61</u>	<u>\$ 1.65</u>

- (1) Financial results for the second, third and fourth quarters of 2012 include AWP litigation charges of \$118 million pre-tax (\$77 million after-tax), \$27 million pre-tax (\$15 million after-tax) and \$4 million pre-tax (benefit of \$32 million after-tax), which were recorded in operating expenses. Financial results for the second and third quarters of 2011 include AWP litigation charges of \$24 million pre-tax (\$16 million after-tax) and \$189 million pre-tax (\$133 million after-tax), which were recorded in operating expenses.
- (2) Financial results for the third and fourth quarters of 2012 include product alignment charges of \$42 million and \$9 million.
- (3) Financial results for the first quarter of 2011 include the receipt of \$51 million representing our share of a settlement of an antitrust class action lawsuit brought against a drug manufacturer, which was recorded as a reduction to cost of sales.
- (4) Financial results for the second quarter of 2011 include a \$72 million asset impairment charge for capitalized software held for sale, which was recorded to cost of sales.
- (5) Financial results for the second quarter of 2011 include a \$95 million pre-tax (\$72 million after-tax) gain from the sale of MAP.
- (6) Certain computations may reflect rounding adjustments.

McKESSON CORPORATION

FINANCIAL NOTES (Concluded)

24. Subsequent Event

In April 2012, we purchased the remaining 50% interest in our corporate headquarters building located in San Francisco, California, for total cash of \$90 million. The cash paid was funded from cash on hand. We previously held a 50% ownership interest and are the primary tenant in this building. As a result, this transaction will be accounted for as a step acquisition, which requires that we re-measure our previously held 50% interest to fair value and record the difference between the fair value and carrying value as a gain in the consolidated statements of operations.

The total fair value of the net assets acquired was \$180 million, which was preliminarily allocated as follows: buildings and improvements of \$113 million and land of \$58 million with the remainder allocated to settlement of our pre-existing lease and lease intangible assets. The fair value of the buildings and improvements was determined based on current market replacement costs less depreciation and unamortized tenant improvement costs, as well as, other relevant market information, and has a weighted average useful life of 30 years. The fair value of the land was determined using comparable sales of land within the surrounding market.

The re-measurement to fair value is anticipated to result in a pre-tax gain of approximately \$75 million (\$46 million after-tax). The pre-tax gain will be recorded within Corporate in the consolidated statements of operations during the quarter ending June 30, 2012.

McKESSON CORPORATION

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

Our Chief Executive Officer and our Chief Financial Officer, with the participation of other members of the Company's management, have evaluated the effectiveness of the Company's "disclosure controls and procedures" (as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report, and have concluded that our disclosure controls and procedures are effective based on their evaluation of these controls and procedures as required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

Internal Control over Financial Reporting

Management's report on the Company's internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) and the related report of our independent registered public accounting firm are included in this Annual Report on Form 10-K, under the headings, "Management's Annual Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm" and are incorporated herein by reference.

Changes in Internal Controls

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our fourth quarter of 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

McKESSON CORPORATION

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information about our Directors is incorporated by reference from the discussion under Item 1 of our Proxy Statement for the 2012 Annual Meeting of Stockholders (the “Proxy Statement”) under the heading “Election of Directors.” Information about compliance with Section 16(a) of the Exchange Act is incorporated by reference from the discussion under the heading “Section 16(a) Beneficial Ownership Reporting Compliance” in our Proxy Statement. Information about our Audit Committee, including the members of the committee and our Audit Committee Financial Expert, is incorporated by reference from the discussion under the headings “Audit Committee Report” and “Audit Committee Financial Expert” in our Proxy Statement.

Information about the Code of Ethics governing our Chief Executive Officer, Chief Financial Officer, Controller and Financial Managers can be found on our website, www.mckesson.com, under the Investors – Corporate Governance tab. The Company’s Corporate Governance Guidelines and Charters for the Audit and Compensation Committees and the Committee on Directors and Corporate Governance can also be found on our website under the Investors – Corporate Governance tab.

The Company intends to disclose required information regarding any amendment to or waiver under the Code of Ethics referred to above by posting such information on our website within four business days after any such amendment or waiver.

Item 11. Executive Compensation.

Information with respect to this item is incorporated by reference from the discussion under the heading “Executive Compensation” in our Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information about security ownership of certain beneficial owners and management is incorporated by reference from the discussion under the heading “Principal Stockholders” in our Proxy Statement.

McKESSON CORPORATION

The following table sets forth information as of March 31, 2012 with respect to the plans under which the Company's common stock is authorized for issuance:

<i>Plan Category</i> <i>(In millions, except per share amounts)</i>	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights ⁽¹⁾	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	13.2 ⁽²⁾	\$ 59.24	10.9 ⁽³⁾
Equity compensation plans not approved by security holders	0.6 ⁽⁴⁾	\$ 32.70	—

⁽¹⁾ The weighted-average exercise price set forth in this column is calculated excluding outstanding restricted stock unit ("RSU") awards, since recipients are not required to pay an exercise price to receive the shares subject to these awards.

⁽²⁾ Represents options and RSUs awarded under the following plans: (i) 1994 Stock Option and Restricted Stock Plan; (ii) 1997 Non-Employee Directors' Equity Compensation and Deferral Plan; and (iii) the 2005 Stock Plan.

⁽³⁾ Represents 1,599,560 shares available for purchase under the 2000 Employee Stock Purchase Plan and 9,278,617 shares available for grant under the 2005 Stock Plan.

⁽⁴⁾ Represents options and RSUs awarded under the following plans: (i) 1999 Stock Option and Restricted Stock Plan; and (ii) the 1998 Canadian Stock Incentive Plan. No further awards will be made under either of these plans.

The following are descriptions of equity plans that have been approved by the Company's stockholders. The plans are administered by the Compensation Committee of the Board of Directors, except for the portion of the 2005 Stock Plan related to Non-Employee Directors, which is administered by the Board of Directors or its Committee on Directors and Corporate Governance.

2005 Stock Plan: The 2005 Stock Plan was adopted by the Board of Directors on May 25, 2005 and approved by the Company's stockholders on July 27, 2005. The 2005 Stock Plan permits the granting of up to 42.5 million shares in the form of stock options, restricted stock ("RS"), RSUs, performance-based restricted stock units ("PeRSUs") and other share-based awards. For any one share of common stock issued in connection with a RS, RSU, PeRSU or other share-based award, two shares shall be deducted from the shares available for future grants. Shares of common stock not issued or delivered as a result of the net exercise of a stock option, shares used to pay the withholding taxes related to a stock award or shares repurchased on the open market with proceeds from the exercise of options shall not be returned to the reserve of shares available for issuance under the 2005 Stock Plan.

Stock options are granted at no less than fair market value and those options granted under the 2005 Stock Plan generally have a contractual term of seven years. Prior to 2005, stock options typically had a contractual term of ten years. Options generally become exercisable in four equal annual installments beginning one year after the grant date or after four years from the date of grant. The vesting of RS or RSUs is determined by the Compensation Committee at the time of grant. RS and RSUs generally vest over four years. Vesting of PeRSUs ranges from one to three-year periods following the end of the performance period and may follow the graded or cliff method of vesting.

Non-employee directors may be granted an award on the date of each annual meeting of the stockholders for up to 5,000 RSUs, as determined by the Board. Such non-employee director award is fully vested on the date of the grant.

1997 Non-Employee Directors' Equity Compensation and Deferral Plan. The 1997 Non-Employee Directors' Equity Compensation and Deferral Plan was approved by the Company's stockholders on July 30, 1997; however, stockholder approval of the 2005 Stock Plan on July 27, 2005 had the effect of terminating the 1997 Non-Employee Directors' Equity Compensation and Deferral Plan such that no new awards would be granted under the 1997 Non-Employee Directors' Equity Compensation and Deferral Plan.

McKESSON CORPORATION

1994 Stock Option and Restricted Stock Plan. The 1994 Stock Option and Restricted Stock Plan expired by its terms on October 18, 2004, ten years after approval by the Board of Directors on October 19, 1994.

2000 Employee Stock Purchase Plan (the “ESPP”). The ESPP is intended to qualify as an “employee stock purchase plan” within the meaning of Section 423 of the Internal Revenue Code. In March 2002, the Board amended the ESPP to allow for participation in the plan by employees of certain of the Company’s international and certain other subsidiaries. As to those employees, the ESPP does not qualify under Section 423 of the Internal Revenue Code. Currently, 16 million shares have been approved by stockholders for issuance under the ESPP.

The ESPP is implemented through a continuous series of three-month purchase periods (“Purchase Periods”) during which contributions can be made toward the purchase of common stock under the plan.

Each eligible employee may elect to authorize regular payroll deductions during the next succeeding Purchase Period, the amount of which may not exceed 15% of a participant’s compensation. At the end of each Purchase Period, the funds withheld by each participant will be used to purchase shares of the Company’s common stock. The purchase price of each share of the Company’s common stock is based on 85% of the fair market value of each share on the last day of the applicable Purchase Period. In general, the maximum number of shares of common stock that may be purchased by a participant for each calendar year is determined by dividing \$25,000 by the fair market value of one share of common stock on the offering date.

The following are descriptions of equity plans that have not been submitted for approval by the Company’s stockholders:

On July 27, 2005, the Company’s stockholders approved the 2005 Stock Plan which had the effect of terminating the 1999 Stock Option and Restricted Stock Plan, the 1998 Canadian Stock Incentive Plan and certain 1999 one-time stock option plan awards, which plans had not been submitted for approval by the Company’s stockholders, and, as noted above, the 1997 Non-Employee Directors’ Equity Compensation and Deferral Plan, which had previously been approved by the Company’s stockholders. Prior grants under these plans include stock options, RS and RSUs. Stock options under the terminated plans generally have a ten-year life and vest over four years. RS contains certain restrictions on transferability and may not be transferred until such restrictions lapse. Each of these plans has outstanding equity grants, which are subject to the terms and conditions of their respective plans, but no new grants will be made under these terminated plans.

Item 13. Certain Relationships and Related Transactions and Director Independence.

Information with respect to certain transactions with management is incorporated by reference from the Proxy Statement under the heading “Certain Relationships and Related Transactions.” Additional information regarding certain related party balances and transactions is included in the Financial Review section of this Annual Report on Form 10-K and Financial Note 21, “Related Party Balances and Transactions,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Item 14. Principal Accounting Fees and Services.

Information regarding principal accounting fees and services is set forth under the heading “Ratification of Appointment of Deloitte & Touche LLP as the Company’s Independent Registered Public Accounting Firm for Fiscal 2013” in our Proxy Statement and all such information is incorporated herein by reference.

McKESSON CORPORATION**PART IV****Item 15. Exhibits and Financial Statement Schedule.**

	<u>Page</u>
(a)(1) Consolidated Financial Statements.....	
Report of Deloitte & Touche, LLP, Independent Registered Public Accounting Firm	53
Consolidated Statements of Operations for the years ended March 31, 2012, 2011 and 2010	54
Consolidated Balance Sheets as of March 31, 2012 and 2011	55
Consolidated Statements of Stockholders' Equity for the years ended March 31, 2012, 2011 and 2010	56
Consolidated Statements of Cash Flows for the years ended March 31, 2012, 2011 and 2010	57
Financial Notes	58
(a)(2) Financial Statement Schedule	
Schedule II—Valuation and Qualifying Accounts	111
All other schedules not included have been omitted because of the absence of conditions under which they are required or because the required information, where material, is shown in the financial statements, financial notes or supplementary financial information.	
(a)(3) Exhibits submitted with this Annual Report on Form 10-K as filed with the SEC and those incorporated by reference to other filings are listed on the Exhibit Index.....	112

McKESSON CORPORATION

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

McKESSON CORPORATION

Dated: May 2, 2012

/s/ Jeffrey C. Campbell
Jeffrey C. Campbell
 Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated:

*

John H. Hammergren
 Chairman of the Board, President and Chief Executive Officer
 (Principal Executive Officer)

*

M. Christine Jacobs, Director

*

Jeffrey C. Campbell
 Executive Vice President and Chief Financial Officer
 (Principal Financial Officer)

*

Marie L. Knowles, Director

*

Nigel A. Rees
 Vice President and Controller
 (Principal Accounting Officer)

*

David M. Lawrence, M.D., Director

*

Andy D. Bryant, Director

*

Edward A. Mueller, Director

*

Wayne A. Budd, Director

*

Jane E. Shaw, Director

*

Alton F. Irby III, Director

*

/s/ Laureen E. Seeger
Laureen E. Seeger
 *Attorney-in-Fact

Dated: May 2, 2012

McKESSON CORPORATION

SCHEDULE II

SUPPLEMENTARY CONSOLIDATED FINANCIAL STATEMENT SCHEDULE
VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended March 31, 2012, 2011 and 2010
(In millions)

Description	Balance at Beginning of Year	Additions		Deductions From Allowance Accounts ⁽¹⁾	Balance at End of Year ⁽²⁾
		Charged to Costs and Expenses	Charged to Other Accounts ⁽³⁾		
Year Ended March 31, 2012					
Allowances for doubtful accounts	\$ 124	\$ 30	\$ —	\$ (43)	\$ 111
Other allowances	16	5	—	(7)	14
	<u>\$ 140</u>	<u>35</u>	<u>—</u>	<u>(50)</u>	<u>125</u>
Year Ended March 31, 2011					
Allowances for doubtful accounts	\$ 131	\$ 18	\$ 5	\$ (30)	\$ 124
Other allowances	24	—	(2)	(6)	16
	<u>\$ 155</u>	<u>\$ 18</u>	<u>\$ 3</u>	<u>\$ (36)</u>	<u>\$ 140</u>
Year Ended March 31, 2010					
Allowances for doubtful accounts	\$ 152	\$ 17	\$ 7	\$ (45)	\$ 131
Other allowances	12	6	10	(4)	24
	<u>\$ 164</u>	<u>\$ 23</u>	<u>\$ 17</u>	<u>\$ (49)</u>	<u>\$ 155</u>

	2012	2011	2010
(1) Deductions:			
Written off	\$ (44)	\$ (36)	\$ (49)
Credited to other accounts.....	(6)	—	—
Total.....	<u>\$ (50)</u>	<u>\$ (36)</u>	<u>\$ (49)</u>
(2) Amounts shown as deductions from current and non- current receivables	<u>\$ 125</u>	<u>\$ 140</u>	<u>\$ 155</u>
(3) Primarily represents reclassifications from other balance sheet accounts.			

McKESSON CORPORATION**EXHIBIT INDEX**

The agreements included as exhibits to this report are included to provide information regarding their terms and not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements may contain representations and warranties by each of the parties to the applicable agreement that were made solely for the benefit of the other parties to the applicable agreement, and;

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.

Exhibits identified under “Incorporated by Reference” in the table below are on file with the Commission and are incorporated by reference as exhibits hereto.

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation of the Company, as filed with the Delaware Secretary of State on July 27, 2011.	10-Q	1-13252	3.1	August 2, 2011
3.2	Amended and Restated By-Laws of the Company, as amended July 27, 2011.	8-K	1-13252	3.2	August 2, 2011
4.1	Indenture, dated as of March 11, 1997, by and between the Company, as Issuer, and The First National Bank of Chicago, as Trustee.	10-K	1-13252	4.4	June 19, 1997
4.2	Indenture, dated as of January 29, 2002, between the Company, as Issuer, and The Bank of New York, as Trustee.	10-K	1-13252	4.6	June 12, 2002
4.3	Indenture, dated as of March 5, 2007, by and between the Company, as Issuer, and The Bank of New York Trust Company, N.A., as Trustee.	8-K	1-13252	4.1	March 5, 2007
4.4	First Supplemental Indenture, dated as of February 28, 2011, to the Indenture, dated as of March 5, 2007, among the Company, as Issuer, the Bank of New York Mellon Trust Company, N.A. (formerly known as The Bank of New York Trust Company, N.A.), and Wells Fargo Bank, National Association, as Trustee.	8-K	1-13252	4.2	February 28, 2011
10.1*	McKesson Corporation 1994 Stock Option and Restricted Stock Plan as amended through July 31, 2001.	10-K	1-13252	10.4	June 12, 2002
10.2*	McKesson Corporation 1999 Stock Option and Restricted Stock Plan, as amended through May 26, 2004.	10-K	1-13252	10.2	May 7, 2008
10.3*	McKesson Corporation 1997 Non-Employee Directors' Equity Compensation and Deferral Plan, as amended through January 29, 2003.	10-K	1-13252	10.4	June 10, 2004

McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
10.4*	McKesson Corporation Supplemental Profit Sharing Investment Plan, as amended and restated on January 29, 2003.	10-K	1-13252	10.6	June 6, 2003
10.5*	McKesson Corporation Supplemental Profit Sharing Investment Plan II, as amended and restated on October 24, 2008.	10-Q	1-13252	10.1	October 29, 2008
10.6*	McKesson Corporation Deferred Compensation Administration Plan, as amended and restated as of October 28, 2004.	10-K	1-13252	10.6	May 13, 2005
10.7*	McKesson Corporation Deferred Compensation Administration Plan II, as amended and restated as of October 28, 2004, and Amendment No. 1 thereto effective July 25, 2007.	10-K	1-13252	10.7	May 7, 2008
10.8*	McKesson Corporation Deferred Compensation Administration Plan III, as amended and restated October 24, 2008.	10-Q	1-13252	10.2	October 29, 2008
10.9*	McKesson Corporation Option Gain Deferral Plan, as amended and restated as of October 28, 2004.	10-K	1-13252	10.8	May 13, 2005
10.10*	McKesson Corporation Executive Benefit Retirement Plan, as amended and restated on October 24, 2008.	10-Q	1-13252	10.3	October 29, 2008
10.11*	McKesson Corporation Executive Survivor Benefits Plan, as amended and restated as of January 20, 2010.	8-K	1-13252	10.1	January 25, 2010
10.12*	McKesson Corporation Severance Policy for Executive Employees, as amended and restated December 29, 2008.	10-K	1-13252	10.12	May 5, 2009
10.13*	McKesson Corporation Change in Control Policy for Selected Executive Employees, as amended and restated on October 26, 2010.	10-Q	1-13252	10.2	February 1, 2011
10.14*	McKesson Corporation 2005 Management Incentive Plan, as amended and restated on April 21, 2010, effective July 28, 2010.	10-Q	1-13252	10.3	July 30, 2010
10.15*	Form of Statement of Terms and Conditions Applicable to Awards Pursuant to the McKesson Corporation 2005 Management Incentive Plan, effective April 20, 2010.	10-K	1-13252	10.15	May 4, 2010
10.16*	McKesson Corporation Long-Term Incentive Plan, as amended and restated effective May 26, 2010.	10-Q	1-13252	10.1	July 30, 2010
10.17*	Form of Statement and Terms and Conditions Applicable to Awards Pursuant to the McKesson Corporation Long-Term Incentive Plan, made on or after May 26, 2009.	10-Q	1-13252	10.2	July 30, 2010
10.18*	McKesson Corporation 2005 Stock Plan, as amended and restated on July 28, 2010.	10-Q	1-13252	10.4	July 30, 2010

McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
10.19*	Forms of (i) Statement of Standard Terms and Conditions applicable to Options, Restricted Stock, Restricted Stock Units and Performance Shares, (ii) Stock Option Grant Notice and (iii) Restricted Stock Unit Agreement, under the McKesson Corporation 2005 Stock Plan, as amended and restated on October 26, 2010.	10-Q	1-13252	10.1	February 1, 2011
10.20	Fourth Amended and Restated Receivables Purchase Agreement, dated as of May 18, 2011, among the Company, as Servicer, CGSF Funding Corporation, as Seller, the several conduit purchasers from time to time party to the Agreement, the several committed purchasers from time to time party to the Agreement, the several managing agents from time to time party to the Agreement, and JPMorgan Chase Bank, N.A., as Collateral Agent.	10-Q	1-13252	10.1	July 28, 2011
10.21	Credit Agreement, dated as of September 23, 2011, among the Company and McKesson Canada Corporation, collectively, the Borrowers, Bank of America, N.A. as Administrative Agent, Bank of America, N.A. (acting through its Canada branch), as Canadian Administrative Agent, JPMorgan Chase Bank, N.A. and Wells Fargo Bank, National Association, as Co-Syndication Agents, Wells Fargo Bank, National Association as L/C Issuer, The Bank of Tokyo-Mitsubishi UFJ, LTD., The Bank of Nova Scotia and U.S. Bank National Association as Co-Documentation Agents, and The Other Lenders Party Thereto, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, Sole Lead Arranger and Sole Book Manager.	10-Q	1-13252	10.1	October 25, 2011
10.22	Senior Bridge Term Loan Agreement, dated as of November 23, 2010, among The Company, Bank of America N.A., as Administrative Agent, and The Other Lenders party thereto.	8-K	1-13252	10.1	November 29, 2010
10.23*	Amended and Restated Employment Agreement, effective as of November 1, 2008, by and between the Company and its Chairman, President and Chief Executive Officer.	10-Q	1-13252	10.10	October 29, 2008
10.24*	Letter dated March 27, 2012 relinquishing certain rights provided in the Amended and Restated Employment Agreement by and between the Company and its Chairman, President and Chief Executive Officer.	8-K	1-13252	10.1	April 2, 2012
10.25*	Amended and Restated Employment Agreement, effective as of November 1, 2008, by and between the Company and its Executive Vice President and Group President.	10-Q	1-13252	10.12	October 29, 2008
10.26*	Form of Director and Officer Indemnification Agreement.	10-K	1-13252	10.27	May 4, 2010
12†	Computation of Ratio of Earnings to Fixed Charges.	—	—	—	—

McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
21†	List of Subsidiaries of the Registrant.	—	—	—	—
23†	Consent of Independent Registered Public Accounting Firm, Deloitte & Touche LLP.	—	—	—	—
24†	Power of Attorney.	—	—	—	—
31.1†	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, and adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	—	—	—	—
31.2†	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934 as amended, and adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	—	—	—	—
32††	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	—	—	—	—
101†	The following materials from the McKesson Corporation Annual Report on Form 10-K for the fiscal year ended March 31, 2012, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) related notes.	—	—	—	—

* Management contract or compensation plan or arrangement in which directors and/or executive officers are eligible to participate.

† Filed herewith.

†† Furnished herewith.

Registrant agrees to furnish to the Commission upon request a copy of each instrument defining the rights of security holders with respect to issues of long-term debt of the registrant, the authorized principal amount of which does not exceed 10% of the total assets of the registrant.

McKESSON CORPORATION

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

John H. Hammergren
Chairman of the Board, President and Chief Executive Officer,
McKesson Corporation

Andy D. Bryant
Vice Chairman of the Board,
Intel Corporation

Wayne A. Budd
Senior Counsel,
Goodwin Procter LLP

Alton F. Irby III
Chairman and Founding Partner,
London Bay Capital

M. Christine Jacobs
Chairman of the Board, President and
Chief Executive Officer,
Theragenics Corporation

Marie L. Knowles
Executive Vice President and
Chief Financial Officer, Retired,
Atlantic Richfield Company

David M. Lawrence, M.D.
Chairman of the Board and
Chief Executive Officer, Retired,
Kaiser Foundation Health Plan, Inc. and
Kaiser Foundation Hospitals

Edward A. Mueller
Chairman of the Board and
Chief Executive Officer, Retired,
Qwest Communications International Inc.

Jane E. Shaw, Ph.D.
Chairman of the Board, Intel Corporation;
Chairman of the Board and
Chief Executive Officer, Retired,
Aerogen, Inc.

CORPORATE OFFICERS

John H. Hammergren
Chairman of the Board, President and Chief
Executive Officer

Patrick J. Blake
Executive Vice President and Group President

Jeffrey C. Campbell
Executive Vice President and Chief Financial Officer

Jorge L. Figueredo
Executive Vice President, Human Resources

Paul C. Julian
Executive Vice President and Group President

Laureen E. Seeger
Executive Vice President, General Counsel and
Chief Compliance Officer

Randall N. Spratt
Executive Vice President, Chief Technology Officer
and Chief Information Officer

Nicholas A. Loiacono
Vice President and Treasurer

Nigel A. Rees
Vice President and Controller

Willie C. Bogan
Secretary

McKESSON CORPORATION

CORPORATE INFORMATION

Common Stock

McKesson Corporation common stock is listed on the New York Stock Exchange (ticker symbol MCK) and is quoted in the daily stock tables carried by most newspapers.

Stockholder Information

Wells Fargo Shareowner Services, 161 Concord Exchange North, South St. Paul, MN 55075 acts as transfer agent, registrar, dividend-paying agent and dividend reinvestment plan agent for McKesson Corporation stock and maintains all registered stockholder records for the Company. For information about McKesson Corporation stock or to request replacement of lost dividend checks, stock certificates, 1099-DIVs, or to have your dividend check deposited directly into your checking or savings account, stockholders may call Wells Fargo Shareowner Services' telephone response center at (866) 614-9635. For the hearing impaired call (651) 450-4144. Wells Fargo Shareowner Services also has a website: <http://www.wellsfargo.com/shareownerservices> – that stockholders may use 24 hours a day to request account information.

Dividends and Dividend Reinvestment Plan

Dividends are generally paid on the first business day of January, April, July and October. McKesson Corporation's Dividend Reinvestment Plan offers stockholders the opportunity to reinvest dividends in common stock and to purchase additional shares of common stock. Stock in an individual's Dividend Reinvestment Plan is held in book entry at the Company's transfer agent, Wells Fargo Shareowner Services. For more information, or to request an enrollment form, call Wells Fargo Shareowner Services' telephone response center at (866) 614-9635. From outside the United States, call +1-651-450-4064.

Annual Meeting

McKesson Corporation's Annual Meeting of Stockholders will be held at 8:30 a.m. PDT, on Wednesday, July 25, 2012 at 1221 Chess Drive, Foster City, CA 94404.

Exhibit 31.1

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John H. Hammergren, certify that:

1. I have reviewed this annual report on Form 10-K of McKesson Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2012

/s/ John H. Hammergren

John H. Hammergren

Chairman of the Board, President and Chief
Executive Officer

Exhibit 31.2

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeffrey C. Campbell, certify that:

1. I have reviewed this annual report on Form 10-K of McKesson Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2012

/s/ Jeffrey C. Campbell
Jeffrey C. Campbell
Executive Vice President and Chief Financial Officer

Exhibit 32

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of McKesson Corporation (the "Company") on Form 10-K for the year ended March 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the dates indicated below, each hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of their knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John H. Hammergren

John H. Hammergren

Chairman of the Board, President and Chief Executive Officer

May 2, 2012

/s/ Jeffrey C. Campbell

Jeffrey C. Campbell

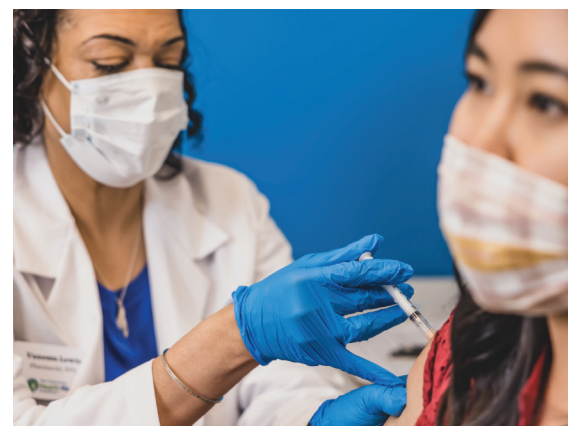
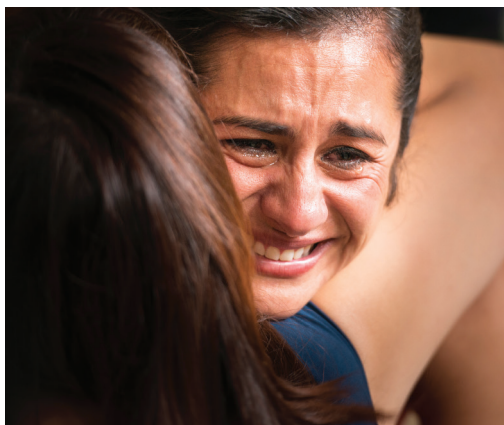
Executive Vice President and Chief Financial Officer

May 2, 2012

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002, and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to McKesson Corporation and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

TRIAL EXHIBIT 117



The **moments** that mattered

Annual Report | Fiscal Year Ended March 31, 2021

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA
Trial Exhibit 117
Case No: 4:13-cv-02219-HSG
Date Entered: _____
By: _____
Deputy Clerk

McKESSON



One package, one patient, one moment at a time— we delivered

Distribution Scale

Delivered **1/3 of all prescription medicines** in North America

Delivered medical-surgical supplies and services to **275,000+** customers

>10,500 owned and banner pharmacies across Canada and Europe

Superior Specialty Assets

US Oncology Research has played a role in **100+ FDA-approved cancer therapies**

McKesson supported over **14,000** specialty physicians through distribution and GPO services

#1 distributor in community oncology and key specialties

Biopharma Services

More than **500 biopharma brands** served

Increased value to biopharma and enabled **>\$5B** in prescription savings

Supported over **94% of therapeutic areas**

Technology Differentiation

19B+ annual **pharmacy transactions** processed through RelayHealth

Connected to **payers** representing **94% of U.S. prescription volume**

Network of **750,000+ providers** and over **50,000 pharmacies**



To our **valued shareholders:**

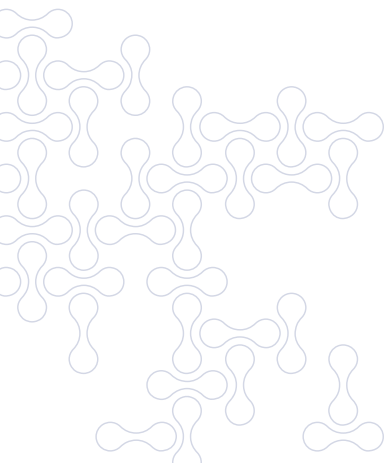
Looking back on a year like no other in our history, it's not the hours or days that we'll remember, but **the moments that mattered**—the theme of our Fiscal Year 2021 (FY21) Annual Report. We came together as one team to deliver against our business and financial commitments, embrace new ways of working to support each other, our customers and the healthcare industry, advance our strategies and invest in our future. FY21 proved that we can work toward our long-term goals while addressing short-term needs—even in moments of crisis.



the public through our Health Mart pharmacies in the U.S. and many of our international retail pharmacies across Canada and Europe. And we stand ready to support our governments with longer-term recovery efforts.

Last year, I wrote my annual letter to you at the very onset of COVID-19. Since then, McKesson has played a front and center role to help end the pandemic—working in partnership with our customers and interacting with regulatory authorities and other leading companies to bring personal protective equipment, medications and essential supplies to healthcare facilities and first responders; leveraging our lab capabilities to ramp up the distribution of COVID-19 tests as they came to market; and most recently, having the honor of serving as the centralized distributor of COVID-19 vaccines and the ancillary kits needed to administer them. Through April, we've successfully distributed over 150 million Moderna and Johnson & Johnson COVID-19 vaccines and have assembled enough kits to support the administration of more than 550 million doses of all vaccine types. Even now, we continue to advance our global efforts as we help to vaccinate

Our employees continue to be the engine of our success. Despite many demands competing for their attention, our employees continued to show up every day and represent the very best of our values and behaviors. Due to their unwavering commitment and engagement, we were able to navigate through an unprecedented time in healthcare while advancing our enterprise strategies and making great strides to enhance our culture, further our commitment to diversity and inclusion across our organization and become the best place to work in healthcare. This relentless focus will continue to drive our performance in the year ahead as we respond quickly to the changing demands of our customers and all those who depend on us and advocate for important social changes that will benefit our company, our communities and our global society.



FY21 Performance Milestones

We delivered consolidated operating profit and adjusted earnings per diluted share growth, including growth across nearly all our businesses. We generated revenues of \$238B and adjusted earnings per diluted share was up 15% compared to the prior year. This strong performance allowed us to deliver meaningful results for investors, with a total shareholder return of 48%. We also returned \$1B in cash to shareholders as we continue to work to improve our five-year shareholder return performance.

Our **U.S. Pharmaceutical** segment grew revenues 4% to \$189.3B and adjusted operating profit (AOP) grew for the second consecutive year, improving 3% versus the prior year. Our priority in this segment is to deliver the world's highest-quality supply chain to our customers and manufacturing partners, leveraging differentiated assets in the areas of specialty and oncology. Our focus on cost and working capital efficiencies underpins this progress and helps fuel investments for growth across the company.

Prescription Technology Solutions grew revenues despite market prescription volume levels lower than pre-COVID-19 levels throughout the entire fiscal year. Revenues were \$2.9B, up 7%, and AOP was flat to FY20. We're continuing to invest in innovation in this segment, and despite this year's challenges, we've been very successful in adding new brands to our platforms. Last year, I shared with you that we had launched Access for More Patients (AMP), which helps patients with real-time benefit checks and electronic prior authorizations. Not only was this new product profitable in FY21, but, more importantly, it helps patients by reducing the wait time between when a medication is first prescribed and when patients start therapy by up to 50%. AMP is a core example of our investment in innovation that is now contributing to profit growth.

Medical-Surgical Solutions grew revenues 22% to \$10.1B, and AOP 19%. In FY21, Medical-Surgical Solutions played a central role in providing supplies to our primary and extended care customers at a critical time of need. Demand within this segment was volatile throughout the fiscal year for products such as PPE and COVID-19 tests, and our procurement teams worked diligently to find the supplies our customers needed to treat their patients at a time when demand was high and pricing was volatile. Despite fewer patient medical visits and elective procedures in FY21, I'm proud of the way the business responded to the needs of our customers, and I am confident that as patients return to consume healthcare and see their community-based providers, our core business is positioned well for growth heading into Fiscal Year 2022 (FY22).

Our **International** segment revenues were \$36.0B, down 6% on a reported basis. The year-over-year decline was driven by the contribution of McKesson's German wholesale business to a joint venture with Walgreens Boots Alliance. AOP increased 5% on a reported basis, driven by solid execution, efficiencies through utilization of shared services, and continued expense controls and management despite lower foot traffic in many of our retail pharmacies across Europe and Canada, where the pandemic still lags the recovery we're seeing in the U.S. Over the past several years, we've taken deliberate actions to address our cost structure and evolve our retail footprint in these markets, and we saw benefits from those actions this fiscal year. We are also very disciplined in how we operate these businesses, as evidenced by our thoughtful exit of unprofitable customers at the onset of the fiscal year in our Canadian business.

\$238
billion in revenue

15%
improvement on
adjusted earnings

48%
total shareholder
return

Executing our McKesson Strategy

Two years ago, we introduced a refreshed McKesson strategy. Since this time, we have made great progress in advancing our growth strategy as defined by our execution against our five priorities that guide our decision making and investments across the enterprise.

1 Building an integrated Oncology Services business

We continue to focus on delivering innovative solutions in areas like oncology where there is critical need and we have deep expertise. In FY21, we made great progress on this front, launching Ontada, our new insights-driven oncology company. Still in its infancy, Ontada has already reached some impressive milestones, including the formation of a strategic alliance with Amgen to improve cancer care in the community oncology setting, and establishing MYLUNG, a large-scale, real-world research study (with The US Oncology Network and other scientific institutions) to improve treatment for non-small cell lung cancer. In addition, we were pleased to add more practices and over 100 providers to The US Oncology Network in FY21. Today, through The US Oncology Network and our nonaffiliated provider business, we're connected to over 14,000 specialty physicians. And our oncology technology platform has supported millions of patient journeys, providing us access to real-world outcomes, data and research.

2 Expanding our Biopharma Services

Similarly, we also continue to expand the services and support we provide to the biopharma industry to improve access, affordability and, ultimately, drive better outcomes for patients. In FY21, we brought together our RelayHealth Pharmacy, CoverMyMeds and RxCrossroads businesses as Prescription Technology Solutions. Together, these businesses are focused on innovating and automating the ways in which biopharma connects with patients, pharmacies and providers. In FY21, our access solutions helped over 50 million patients start therapies after their original prescription was

denied coverage, and our affordability solutions helped patients save over \$5B in out-of-pocket prescription costs. Ultimately, our solutions help patients begin therapies faster and stay on those therapies longer. This value is reflected by the over 500 biopharma brands we support today, covering nearly every therapeutic area.

3 Strengthening our core business

We continue to strengthen our core businesses to enable strong cash flow generation for innovation and future investments. At McKesson, this means driving operational excellence and efficiency while making selective investments. This allows us to continue providing the highest level of service and support to our customers while funding our long-term growth strategy.



In FY21, we invested in our core across the entire organization including investments in our U.S. Pharmaceutical segment and our International segment. For example, through a partnership with Vanderbilt Health Rx Solutions, we expanded our integrated pharmacy services for specialty clinics to help them address unique challenges and develop sustainable programs. In Canada, in alignment with investments to expand capacity in our distribution network and create the Supply Chain of the Future, we signed a Letter of Agreement with Walmart to be their distribution partner across the country. And in Europe, online sales nearly doubled after enhancing our e-commerce offerings to support a more digital and consumer-centric healthcare experience.

4 Simplifying our business and focusing our investments

We also focus on optimizing our operations, so we can pursue the most promising growth opportunities. Not only does this help us to align our investments to our priorities, it is also key to helping us unlock innovation and speed.

In FY21, our efforts to streamline our business included ensuring that we have the right organizational structure in place to better meet our customers' needs by driving efficiencies, enhancing operations and delivering new solutions that are directly focused on solving their biggest challenges. To provide more transparency for our investors, we established four core business segments (U.S. Pharmaceutical, Prescription Technology Solutions, Medical-Surgical Solutions, and International), and consolidated and realigned the divisions we include in each segment. More recently, we centralized our Generics assets, formerly diffused across the business, so we can better ensure we are delivering the best services for our customers.

5 Focusing on people and culture

At McKesson, we understand that the way we do business and how we interact with one another is just as important as our financial performance. Together, unified by our global I²CARE and ILEAD values, we uphold our reputation as a trusted partner to our customers and their patients—even during the most challenging times. In many ways, it's fortuitous that we celebrated the 20th anniversary of our I²CARE values—and expanded the "I" to represent both Integrity and Inclusion—during a year which demanded the very best in us.

In FY21, McKesson has done a tremendous job of both identifying and rapidly implementing a broad range of programs to support our employees and their families during the global COVID-19 pandemic. We expanded benefits coverage for COVID-19-related testing and illness, and also provided flexibility and financial relief for certain retirement and healthcare accounts. We

extended employee support offerings to include enhanced sick leave and paid time off. We also increased flexibility to work from home, flex for your day and provided special bonuses and stipends to offset expenses associated with working from home.

Additionally, our efforts to be the best place to work in healthcare continue to be recognized by others. In FY21, we were honored for the eighth consecutive year as one of the "Best Places to Work for LGBTQ Equality" by the Human Rights Campaign Foundation; for the fifth year in a row as a "Military Friendly Employer" by GI Jobs; and as a "Best Place to Work for Disability Inclusion" on the Disability Equality Index for the fifth consecutive year.

Committing to a Better, Sustainable Future

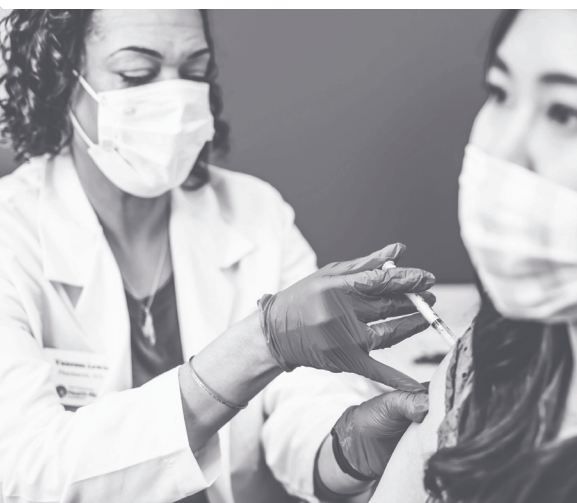
Beyond our strong business and financial performance, we understand that being a global leader in healthcare demands purpose and the desire to bring about long-term, positive change for our employees and the communities where we live and work. At McKesson, everything we do is centered around this philosophy, because we believe that companies can do well by doing good.

Diversity, Equity and Inclusion

As an organization, we continue to be committed to Diversity, Equity and Inclusion (DEI). In FY21, we welcomed Dr. Kelvin Baggett to the newly created role of Chief Impact Officer at the Executive Operating Team (EOT) level, bringing together Diversity, Equity and Inclusion, the McKesson Foundation and Social Impact, and Sustainability and ESG (environmental, social, governance) as one organization under his leadership.



Many events in FY21 underscored an even greater need for action when it comes to helping address the many injustices that exist in our society. As part of our efforts to focus on DEI at McKesson, our team led a comprehensive, system-wide review of practices, plans and strategies that enable a more inclusive and diverse organization. We also identified tools and resources for interactive and engaging DEI training and launched a DEI framework to provide enhanced transparency tools for measuring our talent, and improved marketplace engagements and partnerships. In addition, we marked progress in diverse representation. U.S. female executive representation is up over the prior year (+3%). We also had a 6% gain in U.S. persons of color executive representation over the prior year.



McKesson Foundation and Social Impact

We contributed over \$7M in funding through the McKesson Foundation over the past year to support employees and communities in the U.S. and abroad including:

- **Matching Gifts Program:** The Foundation paid approximately \$1.7M in charitable gifts, including \$838,000 as part of International Giving Tuesday.
- **COVID-19:** In March 2020, the Foundation expanded the Taking Care of Our Own Fund to cover additional employee hardship expense categories, extended coverage to Rexall employees in Canada and donated \$3M to 13 food banks to support communities across the country.
- **Social Justice:** In June 2020, the Foundation invested \$1M in programming support to the NAACP Legal Defense Fund in support of social justice initiatives.
- **Employee Engagement:** The team effectively mobilized employees in virtual community-focused efforts including the American Cancer Society Fit2BeCancerFree Challenge and McKesson's first-ever Virtual Community Days event.

Sustainability and ESG

In FY21, McKesson hired our first VP of Sustainability and ESG to lead the development and execution of an enterprise-wide strategy. The Sustainability and ESG team has initiated a climate action plan and is on a path to set greenhouse gas emissions reduction targets. We also established Sustainability and ESG priority pillars—Access to Care, Health

Equity and Climate Action for Health—based on increasing expectations from various stakeholders and in alignment with McKesson-relevant United Nations Sustainable Development Goals. The team also engaged with the EOT, Board of Directors, customers, ESG think tanks and investors on sustainability and ESG issues, trends and strategy.

Responding to the Opioid Epidemic

McKesson continues to be deeply concerned about the impact of the opioid epidemic. McKesson maintains and continuously works to enhance strong programs designed to detect and prevent opioid diversion within the pharmaceutical supply chain. In addition, we only distribute controlled substances, including opioids, to DEA-registered and state-licensed pharmacies.

After years of negotiations, we are now in advanced discussions for a broad resolution of opioid-related claims of states, their political subdivisions and other government entities. If those discussions are successful, a settlement would provide thousands of communities across the U.S. with billions of dollars to help remediate the opioid crisis. It would also establish a new clearinghouse that consolidates data from the three largest U.S. pharmaceutical distributors to provide state and local officials with greater visibility into prescription opioid distribution.

If a settlement cannot be reached and plaintiffs instead continue to pursue their claims in court, McKesson is prepared to go to trial and assert its strong legal defenses in pending litigation.

Looking Ahead

In the moments and even years to come, we will still be operating in a dynamic and uncertain time. As a company, our outlook for FY22 reflects continued confidence in our operating momentum with growth across all segments of the business, supported by the strength of our balance sheet and strong financial position.

We will pursue investments in strategic priority areas such as oncology and biopharma services to deliver value to our customers and partners. We will also continue to simplify our business, focus our investments and strengthen our core. Just as we did over the past year, we will keep contributing our expertise to the fight against COVID-19 and longer-term recovery efforts, while speaking with a stronger voice when it comes to addressing the ongoing global and social issues that go beyond the scope of our daily business. These priorities will help us further evolve to best serve the broader needs of a rapidly changing healthcare system and bring us one step closer to our aspirations to be recognized as an impact-driven organization and the best place to work in healthcare.

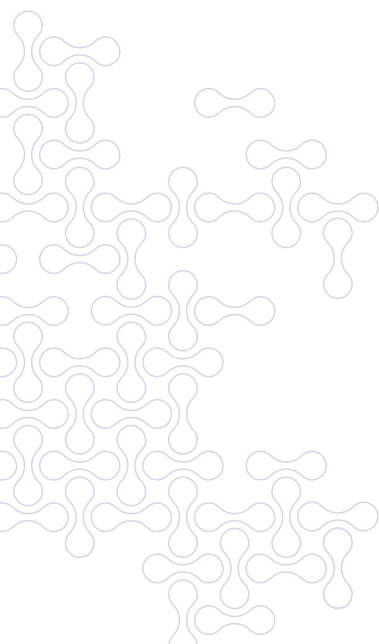
Central to all of our future efforts, we will always lead with our I²CARE and ILEAD values, along with the behaviors we know are critical to our success. One important strength I know we will take with us is our refusal to accept the status quo and our relentless commitment to making our great company even better. Working together, we are entering this next chapter even stronger from all we've overcome and reinvigorated by our unique ability to make better health possible for people around the world.

On behalf of our entire company, I want to thank you, our shareholders, for your commitment to McKesson. Your belief in our company helps to push us forward and makes it possible for us to do what we do best. In a similar way, it's been incredibly uplifting to read and hear the deep level of appreciation our customers and public and private partners have for our team, particularly our essential workers. Our thousands of colleagues in distribution centers, customer contact centers, pharmacies, clinics and transportation roles—and all of our 76,000 employees, regardless of their daily responsibilities—are doing extraordinary work, and I am immensely grateful for their efforts. I also want to thank and recognize our Board of Directors, whose support and encouragement has helped us navigate such a historic year.

No matter the challenge, our charge remains clear: McKesson will deliver strong financial performance and build on the progress we have made to drive long-term growth. This blueprint for success will enable us to provide increased value for our shareholders while serving our customers, strengthening our communities and delivering against our vision—to improve care in every setting one product, one partner, one patient at a time.



Brian S. Tyler
Chief Executive Officer



**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2021

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 1-13252

McKESSON
McKESSON CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

94-3207296

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

6555 State Hwy 161,
Irving, TX 75039

(Address of principal executive offices, including zip code)

(972) 446-4800

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>(Title of each class)</u>	<u>(Trading Symbol)</u>	<u>(Name of each exchange on which registered)</u>
Common stock, \$0.01 par value	MCK	New York Stock Exchange
0.625% Notes due 2021	MCK21A	New York Stock Exchange
1.500% Notes due 2025	MCK25	New York Stock Exchange
1.625% Notes due 2026	MCK26	New York Stock Exchange
3.125% Notes due 2029	MCK29	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒
Non-accelerated filer ☐

Accelerated filer ☐
Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, September 30, 2020, was approximately \$23.9 billion.

Number of shares of common stock outstanding on April 30, 2021: 158,186,277

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2021 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

McKESSON CORPORATION**TABLE OF CONTENTS**

<u>Item</u>	<u>Page</u>
<u>PART I</u>	
1. Business	3
1A. Risk Factors	15
1B. Unresolved Staff Comments	27
2. Properties	27
3. Legal Proceedings	27
4. Mine Safety Disclosures	27
Executive Officers of the Registrant	28
<u>PART II</u>	
5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	29
6. Reserved	31
7. Management's Discussion and Analysis of Financial Condition and Results of Operations	32
7A. Quantitative and Qualitative Disclosures About Market Risk	67
8. Financial Statements and Supplementary Data	69
9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	157
9A. Controls and Procedures	157
9B. Other Information	157
<u>PART III</u>	
10. Directors, Executive Officers and Corporate Governance	158
11. Executive Compensation	158
12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	158
13. Certain Relationships and Related Transactions and Director Independence	160
14. Principal Accounting Fees and Services	160
<u>PART IV</u>	
15. Exhibits and Financial Statement Schedule	161
16. Form 10-K Summary	168
Signatures	169

McKESSON CORPORATION

PART I

Item 1. Business.

General

McKesson Corporation (“McKesson,” the “Company,” or “we,” and other similar pronouns), originally founded in 1833, is a global leader in healthcare supply chain management solutions, retail pharmacy, community oncology and specialty care, and healthcare information solutions. McKesson partners with life sciences companies, manufacturers, providers, pharmacies, governments, and other healthcare organizations to help provide the right medicines, medical products, and healthcare services to the right patients at the right time, safely, and cost-effectively.

The Company’s fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references in this document to a particular year shall mean the Company’s fiscal year. The Company was incorporated on July 7, 1994 in the State of Delaware.

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act,”) are available free of charge on the Company’s website (www.mckesson.com under the “Investors — Financials — SEC Filings” caption) as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (“SEC” or the “Commission”). The content on any website referred to in this Annual Report on Form 10-K is not incorporated by reference into this report, unless expressly noted otherwise. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers, including the Company, that file electronically with the SEC. The address of the website is www.sec.gov.

Business Segments

Commencing with the second quarter of 2021, the Company operates its business in four reportable segments: U.S. Pharmaceutical, International, Medical-Surgical Solutions, and Prescription Technology Solutions (“RxTS”). The Company’s equity method investment in Change Healthcare LLC (“Change Healthcare JV”), which was split-off from McKesson in the fourth quarter of 2020, has been included in Other for retrospective periods presented.

Our U.S. Pharmaceutical segment distributes branded, generic, specialty, biosimilar and over-the-counter (“OTC”) pharmaceutical drugs, and other healthcare-related products. This segment provides practice management, technology, clinical support, and business solutions to community-based oncology and other specialty practices. In addition, the segment sells financial, operational, and clinical solutions to pharmacies (retail, hospital, alternate site) and provides consulting, outsourcing, technological, and other services.

Our International segment provides distribution and services to wholesale, institutional, and retail customers in 13 European countries and Canada where we own, partner or franchise with retail pharmacies, and support better, safer patient care by delivering vital medicines, supplies, and information technology solutions.

Our Medical-Surgical Solutions segment provides medical-surgical supply distribution, logistics, and other services to healthcare providers, including physician offices, surgery centers, nursing homes, hospital reference labs, and home health care agencies. We offer more than 275,000 national brand medical-surgical products as well as McKesson’s own line of high-quality products through a network of distribution centers within the United States (“U.S.”).

McKESSON CORPORATION

Our RxTS segment brings together CoverMyMeds, RelayHealth, RxCrossroads, and McKesson Prescription Automation, including Multi-Client Central Fill as a Service, to serve our biopharma and life sciences partners and patients. Together, we work across the healthcare delivery system to connect pharmacies, providers, payers, and biopharma for next-generation patient access and adherence solutions that help people get the medicine they need to live healthier lives.

U.S. Pharmaceutical Segment:

Our U.S. Pharmaceutical segment provides distribution and logistics services for branded, generic, specialty, biosimilar, and OTC pharmaceutical drugs along with other healthcare-related products to customers. This business provides solutions and services to pharmacies, hospitals and other providers, pharmaceutical manufacturers, physicians, payers, and patients throughout the U.S. and Puerto Rico. We also source generic pharmaceutical drugs through our joint sourcing entity, ClarusONE Sourcing Services LLP (“ClarusONE”).

Our U.S. Pharmaceutical segment operates and serves customers through a network of 33 distribution centers, as well as a strategic redistribution center, a primary and a secondary redistribution center. We invest in technology and other systems at all of our distribution centers to enhance safety, reliability, and product availability. For example, we offer McKesson ConnectSM, an internet-based ordering system that provides item look-up and real-time inventory availability as well as ordering, purchasing, third-party reconciliation, and account management functionality. We make extensive use of technology as an enabler to ensure customers have the right products at the right time in the right place.

To maximize distribution efficiency and effectiveness, we follow the Six Sigma methodology, which is an analytical approach that emphasizes setting high-quality objectives, collecting data, and analyzing results to a fine degree in order to improve processes, reduce costs, and enhance service accuracy and safety. We provide solutions to our customers including supply management technology, world-class marketing programs, managed care, repackaging products, and services to help them meet their business and quality goals. We continue to implement information systems to help achieve greater consistency and accuracy both internally and for our customers.

We have four primary customer pharmaceutical distribution channels: (i) retail national accounts which include national and regional chains, food and drug combinations, mail order pharmacies, and mass merchandisers, (ii) independent, small, and medium chain retail pharmacies, (iii) institutional healthcare providers such as hospitals, health systems, integrated delivery networks, and long-term care providers, and (iv) provider solutions.

Retail National Accounts: We provide business solutions that help retail national account customers increase revenues and profitability. Solutions include:

- Central FillSM — Prescription refill service that enables pharmacies to more quickly refill prescriptions remotely, more accurately, and at a lower cost, while reducing inventory levels and improving customer service.
- Redistribution Centers — Three facilities totaling over 930,000 square feet that offer access to inventory for single source warehouse purchasing, including pharmaceuticals and biologics. These distribution centers also provide the foundation for a two-tiered distribution network that supports best-in-class direct store delivery.
- McKesson SynerGx[®] — Generic pharmaceutical purchasing program and inventory management that helps pharmacies maximize their cost savings with a broad selection of generic drugs, competitive pricing, and one-stop shopping.

McKESSON CORPORATION

- Inventory Management — An integrated solution comprising forecasting software and automated replenishment technologies that reduce inventory-carrying costs.
- ExpressRx Track™ — Pharmacy automation solution featuring state-of-the-art robotics, upgraded imaging, and expanded vial capabilities, and industry-leading speed and accuracy in a small footprint.

Independent, Small and Medium Chain Retail Pharmacies: We provide managed care contracting, branding and advertising, merchandising, purchasing, operational efficiency, and automation that help independent pharmacists focus on patient care while improving profitability. Solutions include:

- Health Mart® — Health Mart® is a national network of approximately 5,000 independently-owned pharmacies and is one of the industry's most comprehensive pharmacy franchise programs. Health Mart® provides franchisees support for managed care contracting, branding and local marketing solutions, the Health Mart private label line of products, merchandising solutions, and programs for enhanced patient support.
- Health Mart Atlas® — Comprehensive managed care and reconciliation assistance services that help independent pharmacies save time, access competitive reimbursement rates, and improve cash flow.
- McKesson Reimbursement AdvantageSM ("MRA") — MRA is one of the industry's most comprehensive reimbursement optimization packages, comprising financial services (automated claim resubmission), analytic services, and customer care.
- McKesson OneStop Generics® — Generic pharmaceutical purchasing program that helps pharmacies maximize their cost savings with a broad selection of generic drugs, competitive pricing, and one-stop shopping.
- Sunmark® — Complete line of products that provide retail independent pharmacies with value-priced alternatives to national brands.
- FrontEdge™ — Strategic planning, merchandising, and price maintenance program that helps independent pharmacies maximize store profitability.
- McKesson Sponsored Clinical Services ("SCS") Network — Access to patient-support services that allow pharmacists to earn service fees and to develop stronger patient relationships.
- McKesson RxOwnership Program — Assist independent pharmacist owners with the opportunity to remain independent via succession planning and business operation loans.

Institutional Healthcare Providers: We provide electronic ordering/purchasing and supply chain management systems that help customers improve financial performance, increase operational efficiencies, and deliver better patient care. Solutions include:

- Fulfill-RxSM — Ordering and inventory management system that empowers hospitals to optimize the often complicated processes related to unit-based cabinet replenishment and inventory management.
- Asset Management — Award-winning inventory optimization and purchasing management program that helps institutional providers lower costs while ensuring product availability.
- SKY Packaging — Blister, Unit of Use, and Unit dose packaging containing the most widely prescribed dosages and strengths in generic oral-solid and liquid medications. SKY Packaging enables acute care, long-term care, and institutional pharmacies to provide cost-effective, uniform packaging.
- McKesson Plasma and Biologics — A full portfolio of plasma-derivatives and biologic products.
- McKesson OneStop Generics® — Described above.

McKESSON CORPORATION

Provider Solutions:

The U.S. Pharmaceutical segment provides a range of solutions to oncology and other specialty practices and offers community specialists (oncologists, rheumatologists, ophthalmologists, urologists, neurologists, and other specialists) an extensive set of customizable products and services designed to strengthen core practice operations, enhance value-based care delivery, and expand their service offering to patients. Community-based physicians in this business have broad flexibility and discretion to select the products and commitment levels that best meet their practice needs. Services in provider solutions include specialty drug distribution, group purchasing organizations (“GPO”) like Onmark®, technology solutions, practice consulting services, and vaccine distribution, including our exclusive distributor relationship with the Centers for Disease Control and Prevention’s (“CDC”) Vaccines for Children program. Additionally, to support the U.S. efforts to fight the coronavirus disease 2019 (“COVID-19”) pandemic, this segment is distributing the COVID-19 vaccines manufactured by ModernaTX, Inc. and Janssen Biotech Inc., a Janssen pharmaceutical company of Johnson & Johnson, at the direction of the U.S. government.

This business provides a variety of solutions, including practice operations, healthcare information technology, revenue cycle management and managed care contracting solutions, evidence-based guidelines, and quality measurements to support U.S. Oncology Network (“USON”), one of the nation’s largest networks of physician-led, integrated, community-based oncology practices dedicated to advancing high-quality, evidence-based cancer care. We also support U.S. Oncology Research, one of the nation’s largest research networks, specializing in oncology clinical trials.

This segment includes our Ontada business, providing software to support the clinical, financial, and operational needs of our oncology practice partners. Ontada also partners with oncology providers and biopharma partners to perform real-world evidence studies, retrospective research, and to provide clinical data insights, advisory solutions and education opportunities.

This segment also offers solutions which enable its customers to drive greater efficiencies in their day to day operations, effectively managing their inventories and complying with complex government regulations. Solutions include McKesson Pharmacy Systems, MacroHelix and Supply Logix, all of which provide innovative software technology and services that support retail pharmacies and hospitals.

When we discuss specialty products or services, we consider the following factors: diseases requiring complex treatment regimens such as cancer and rheumatoid arthritis; plasma and biologics products; ongoing clinical monitoring requirements, high-cost, special handling, storage, and delivery requirements and, in some cases, exclusive distribution arrangements. Our use of the term “specialty” may not be comparable to that used by other industry participants, including our competitors.

International Segment:

Our International segment provides distribution and services to wholesale, institutional, and retail customers in 13 European countries where we own, partner, or franchise with retail pharmacies and operate through two businesses: Pharmaceutical Distribution and Retail Pharmacy. Our operations in Canada, including Rexall retail pharmacies, support better, safer patient care by delivering vital medicines, supplies, and information technology solutions throughout Canada.

Our European Pharmaceutical Distribution business delivers pharmaceutical and other healthcare-related products to pharmacies across Europe. This business functions as a vital link, using technology-enabled management systems at our regional wholesale branches to connect manufacturers to retail pharmacies, supplying medicines and other products sold in pharmacies.

McKESSON CORPORATION

Our European Retail Pharmacy business serves patients and consumers in European countries directly through approximately 2,100 of our own pharmacies and 5,500 participant pharmacies operating under brand partnership arrangements. In addition, this business includes outpatient dispensing, eCommerce and homecare arrangements mainly in the United Kingdom (“U.K.”), and provides traditional prescription pharmaceuticals, non-prescription products and medical services, and operates under the Lloyds pharmacy branding in Belgium, Ireland, Italy, Sweden, and the U.K. In addition, we partner with independent pharmacies under local banner programs.

McKesson Canada is one of the largest pharmaceutical wholesale and retail distributors in Canada. The wholesale business delivers products to retail pharmacies, hospitals, long-term care centers, clinics and institutions in Canada through a national network of distribution centers and provides logistics and distribution services for manufacturers.

Beyond wholesale pharmaceutical logistics and distribution, McKesson Canada provides automation and technology solutions to its retail and hospital customers. Additionally, McKesson Canada provides comprehensive specialty health services to Canadians, including a national network of specialty pharmacies, personalized patient care and support programs, and INVIVA, Canada’s first and largest accredited network of private infusion clinics.

The Canada retail business includes over 2,500 banner pharmacies under the IDA, Guardian, The Medicine Shoppe, Remedy’sRx, Proxim, and Uniprix banners, and more than 400 owned pharmacies under the Rexall brand where we provide patients with greater choice and access, integrated pharmacy care and industry-leading service levels. McKesson Canada also owns and operates Well.ca, a leading Canadian online health and wellness retailer.

Medical-Surgical Solutions Segment:

Our Medical-Surgical Solutions segment delivers medical-supply distribution, logistics, biomedical maintenance, and other services to healthcare providers across the alternate-site spectrum. Our more than 250,000 customers include physician offices, surgery centers, post-acute care facilities, hospital reference labs, and home health agencies. We distribute medical-surgical supplies (such as gloves, needles, syringes and wound care products), infusion pumps, laboratory equipment and pharmaceuticals. Through a network of distribution centers within the U.S., we offer more than 275,000 products from national brand manufacturers and McKesson’s own high-quality product line. Through the right mix of products and services, we help improve efficiencies, profitability and compliance. We also never lose focus on helping customers improve patient and business outcomes. We develop customized plans to address the product, operational, and clinical support needs of our customers, including tackling inventory management, reducing administrative burdens, and training and educating clinical staff. We deliver for our customers, so they can deliver and care for their patients. Additionally, under a contract with the Department of Health and Human Services (“HHS”), McKesson’s Medical-Surgical business leverages its expertise to manage the assembly of supply kits needed to administer COVID-19 vaccines, as well as some of the sourcing of those supplies. The kits are being produced and distributed at the direction of HHS to support the administration of all vaccines approved in the U.S.

Prescription Technology Solutions Segment:

Our Prescription Technology Solutions segment works across the healthcare delivery system to connect pharmacies, providers, payers, and biopharma for next generation patient access and adherence solutions and operates primarily through the following businesses:

- CoverMyMeds — Provides solutions to help patients get the medications they need to live healthy lives by seamlessly connecting the healthcare network to improve medication access; thereby increasing

McKESSON CORPORATION

speed to therapy and reducing prescription abandonment. By facilitating appropriate access to medications, the company can help its customers avoid millions of dollars each year in administrative waste and avoidable medical spending caused by prescription abandonment.

- **RelayHealth Pharmacy Solutions** — Provides workflow solutions to connect key healthcare stakeholders with more than 50,000 U.S. retail pharmacies and processes more than 18 billion pharmacy transactions annually.
- **RxCrossroads** — Uses deep insights and innovative technology to help biopharma manufacturers thrive throughout the product lifecycle and create flexible, connected solutions that increase access, adherence, and safe use conditions for therapies and interventions.
- **McKesson Prescription Automation (“MPA”)** — Provides customized pharmacy automation technology that allows our partners to control costs, work faster, offer higher-quality products, and better serve patients.
- **Multi-Client Central Fill as a Service** — McKesson-owned pharmacy that utilizes MPA dispensing automation to enable low-cost fulfillment of up to 50,000 prescriptions daily for retail and independent pharmacy customers, new digital pharmacies, and manufacturers.

Other:

Change Healthcare: Our equity ownership interest in Change Healthcare JV, a joint venture, has been accounted for using the equity method of accounting. Change Healthcare JV provided software and analytics, network solutions, and technology-enabled services that deliver wide-ranging financial, operational, and clinical benefits to payers, providers and consumers. On March 10, 2020, we completed the separation of our interest in the Change Healthcare JV through a split-off transaction. This transaction reduced our investment in the Change Healthcare JV to zero. Refer to Financial Note 2, “Investment in Change Healthcare Joint Venture,” to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information related to this transaction.

Restructuring, Business Combinations, Investments, and Divestitures

We have undertaken additional strategic initiatives in recent years designed to further focus on our core healthcare businesses and enhance our competitive position. These initiatives are detailed in Financial Notes 2, 3, 4, and 5, “Investment in Change Healthcare Joint Venture,” “Held for Sale,” “Restructuring, Impairment, and Related Charges,” and “Business Acquisitions and Divestitures,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Competition

We face highly competitive global environments. Additionally, in recent years the healthcare industry has been subject to increasing consolidation. In the pharmaceutical distribution environment in which our U.S. Pharmaceutical and International segments operate, we face strong competition from international, national, regional and local full-line, short-line and specialty distributors, service merchandisers, self-warehousing chain drug stores, manufacturers engaged in direct distribution, third-party logistics companies, and large payer organizations. Our retail businesses, which primarily operate in our International segment, face competition from various global, national, regional, and local global retailers, including chain and independent pharmacies. We consider our largest competitors in distribution, wholesaling, and logistics to be AmerisourceBergen Corporation and Cardinal Health, Inc.

Our Medical-Surgical Solutions segment provides medical-surgical supply distribution, logistics, and other services to healthcare providers, including physician offices, surgery centers, nursing homes, hospital reference

McKESSON CORPORATION

labs, home health care agencies, and alternative health sites with competition from a wide range of national and regional medical supply and equipment distributors throughout the U.S.

Our RxTS business experiences substantial competition from many companies, including other software services firms, consulting firms, shared service vendors, and internet-based companies with technology applicable to the healthcare industry. Competition in this business varies in size from large to small companies, in geographical coverage, and in scope and breadth of products and services offered.

In addition, we compete with other service providers, pharmaceutical and other healthcare manufacturers, as well as other potential customers of our businesses, which may from time to time decide to develop, for their own internal needs, supply management capabilities that might otherwise be provided by our businesses. We believe that our scale and diversity of product and service offerings are our primary competitive advantages. In all areas, key competitive factors include price, quality of service, breadth of product lines, innovation and, in some cases, convenience to the customer.

Patents, Trademarks, Copyrights, and Licenses

McKesson and its subsidiaries hold patents, copyrights, trademarks, and trade secrets related to McKesson products and services. We pursue patent protection for our innovations and obtain copyright protection for our original works of authorship, when such protection is advantageous. Through these efforts, we have developed a portfolio of patents and copyrights in the U.S. and worldwide. In addition, we have registered or applied to register certain trademarks and service marks in the U.S. and in foreign countries.

We believe that, in the aggregate, McKesson's confidential information, patents, copyrights, trademarks, and intellectual property licenses are important to its operations and market position, but we do not consider any of our businesses to be dependent upon any one patent, copyright, trademark, or trade secret, or any family or families of the same. We cannot guarantee that our intellectual property portfolio will be sufficient to deter misappropriation, theft, or misuse of our technology, nor that we can successfully enjoin infringers. We periodically receive notices alleging that our products or services infringe on third party patents and other intellectual property rights. These claims may result in McKesson entering settlement agreements, paying damages, discontinuing use or sale of accused products, or ceasing other activities. While the outcome of any litigation or dispute is inherently uncertain, we do not believe that the resolution of any of these infringement notices would have a material adverse impact on our results of operation.

We hold inbound licenses for certain intellectual property that is used internally, and in some cases, utilized in McKesson's products or services. While it may be necessary in the future to seek or renew licenses relating to various aspects of our products and services, we believe, based upon past experience and industry practice, such licenses generally can be obtained on commercially reasonable terms. We believe our operations and products and services are not materially dependent on any single license or other agreement with any third party.

Human Capital

Our vision for a healthier world begins with our employees, who strive to bring our mission to life every day. As a company, we deliver programs that focus on improving employee health and wellness, creating opportunities for growth and development, and providing an inclusive workplace where our employees can reach their full potential. At March 31, 2021, we had approximately 76,000 employees worldwide, including 17,000 part-time employees and 32,000 employees in the U.S.

Diversity, Equity, and Inclusion ("DEI"): At McKesson, we are committed to making DEI integral to everything we do, because we believe building a healthier future is everyone's business. We build successful

McKESSON CORPORATION

teams by recruiting, developing, and retaining diverse talent and we recognize our culture of inclusion as an important element that drives long-term shareholder value. During 2021, we appointed the newly created role of chief impact officer, who will drive our strategy and execution related to DEI as well as sustainability, environmental, social, and governance (“ESG”), and philanthropy.

At March 31, 2021, women and people of color represented the following:

	McKesson Overall	McKesson Leadership ⁽²⁾
Metric ⁽¹⁾		
Women ⁽³⁾	63%	35%
People of Color ^{(4) (5)}	45%	21%

- (1) The data for our metrics is derived from our voluntary, self-identification process as of March 31, 2021 and therefore represents our best estimate at this time.
- (2) Represents our leadership at the vice president level and above.
- (3) Represents worldwide employees.
- (4) Represents U.S. employees only as the data for Canada and Europe is not available.
- (5) People of Color includes the following races and ethnicities: Hispanic or Latino, Black or African American, Asian, Native Hawaiian or Other Pacific Islander, American Indian or Alaska Native, or Two or More Races.

Culture and Leadership: What sets McKesson apart as an exceptional place is our people. Our employees understand that together, unified by our global I²CARE and ILEAD principles, we fulfill our mission of improving care in every setting. Our I²CARE values (Integrity, Inclusion, Customer-First, Accountability, Respect, Excellence) are foundational to all that we do, and who we are as a company. ILEAD (Inspire, Leverage, Execute, Advance, Develop) is our common definition and shared commitment to leadership. By embracing this commitment, we bring out the best in ourselves and position McKesson to continue to drive better health — for our company, our customers, and the patients they serve for years to come. We promote leadership behaviors through culture initiatives that offer practical tips on how to debate, decide, and commit, be open and candid, and maintain an enterprise-first mindset when navigating conversations affecting operations within and across our business segments. These values and behaviors help make McKesson unique.

Investment in Employees: To support employee growth, we provide regular feedback and training, and work to create and maintain inclusive work settings where everyone can bring their authentic self to work and feel welcomed and appreciated, and where their perspectives are sought out, heard, and considered. Through training, we encourage leaders to embrace diverse perspectives and lead inclusively. Employee development programs include training, coaching, and 360-degree assessments, which can support the careers of future leaders and their teams. We offer financial assistance programs for higher education opportunities that support employees’ career growth at the company. To provide compensation that is focused on attracting and retaining talent with the skills and experience necessary for a specific role, our compensation program is built on a set of quantifiable factors defined by our guiding principles of internal fairness, market competitiveness, and pay for performance. We operate in several countries and our benefits offerings vary accordingly. We offer health and wellness benefits to advance the physical, mental, and social well-being of our people, savings programs to help prepare them for retirement, and flexible work arrangements, among other benefits offerings, when possible. In response to the COVID-19 pandemic, we offered extended medical benefits covering COVID-19 related visits, treatment and testing, expanded telehealth options, emergency paid time off (“PTO”), and a platform for employees to donate their regular PTO to co-workers who were more impacted by COVID-19. We also seek employee feedback through an annual employee opinion survey, which assesses our employees’ levels of engagement, commitment, and overall satisfaction using industry benchmarks, and we then design action plans to improve those metrics.

McKESSON CORPORATION

Health and Safety: Our security and safety departments employ systems designed to continually monitor our facilities and work environment to help identify and prevent or mitigate any potential risks. This includes having procedures in place and investing in equipment for both physical and electronic security. We routinely assess facilities to monitor closely adherence to established security and safety standards. If we identify a vulnerability, it is documented, and the facility prepares an action plan. Our employees receive specialized training related to their role, work setting, and equipment used in their work environment. As our processes evolve, we update relevant safety training modules, which may include new employee training programs. In response to the COVID-19 pandemic, our priority has been, and continues to be, protecting the health and safety of our employees. The various responses we put in place to mitigate the impact of COVID-19 on our business operations, including telecommuting and work-from-home policies, restricted travel, and enhanced safety measures, are intended to limit employee exposure to the virus that causes COVID-19 as they perform their jobs while also providing employee support programs and a sense of belonging. For additional information on our response to COVID-19 in the workplace, refer to the COVID-19 section of “*Trends and Uncertainties*” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of Part II included in this Annual Report on Form 10-K.

Government Regulation

McKesson, generally and in many of the highly regulated industries in which it operates, is subject to oversight by various federal, state, and local governmental entities. Failure to comply with laws, regulations, and guidance promulgated by those entities could have a material adverse impact to the Company’s business operations, reputation, results of operations, and financial position.

Controlled Substances: We are subject to the operating and security standards of the Drug Enforcement Administration (“DEA”), the U.S. Food and Drug Administration (“FDA”), various state boards of pharmacy, state health departments, HHS, the Centers for Medicare & Medicaid Services (“CMS”), and other comparable agencies. We have received monetary penalties and/or licensing sanctions pursuant to these requirements and future allegations of noncompliance could result in an inability to obtain, maintain or renew permits, licenses or other regulatory approvals needed for the operation of our businesses.

Additionally, the Company is a defendant in approximately 3,200 cases alleging claims related to the distribution of controlled substances (opioids), as described in Financial Note 19, “Commitments and Contingent Liabilities,” to the consolidated financial statements in this Annual Report on Form 10-K. The plaintiffs in those cases include governmental entities (such as states, provinces, counties and municipalities) as well as businesses, groups and individuals. As a result of ongoing, advanced discussions with state attorneys general and plaintiffs’ representatives regarding a framework to resolve the claims of governmental entities, and our assessment of certain other opioid-related claims, we have reached a stage at which a broad settlement of opioid claims by governmental entities is probable and recorded a charge of \$8.1 billion for the year ended March 31, 2021 within “Claims and litigation charges, net” in our Consolidated Statement of Operations in this Annual Report on Form 10-K. Because of the many uncertainties associated with any potential settlement arrangement or other resolution of opioid-related litigation, including the uncertainty of the scope of participation by plaintiffs in any potential settlement, we are not able to reasonably estimate the upper or lower ends of the range of ultimate possible loss for all opioid-related litigation matters. The adverse outcome of legal proceedings might also involve significant expense, management time and distraction, and risk of loss that can be difficult to predict or quantify. In addition to this litigation, legislative or regulatory measures related to the distribution of controlled substances such as prescription opioids could affect our business in ways that we may not be able to predict. For example, some states have passed legislation that could require us to pay taxes or assessments on the distribution of opioid medications in those states and other states have considered similar legislation.

Government Contracts: Our contracts with government entities are subject to unique compliance risks and typically are subject to procurement laws that include socio-economic, employment practices, environmental

McKESSON CORPORATION

protection, recordkeeping and accounting, and other requirements. We are subject to government audits, investigations and oversight proceedings. Government agencies routinely review and audit government contractors to determine whether they are complying with contractual and legal requirements. If we fail to comply with these requirements, or we fail an audit, we may be subject to various sanctions such as monetary damages, criminal and civil penalties, termination of contracts and suspension or debarment from government contract work. These requirements complicate our business and increase our compliance burden and material non-compliance could harm our reputation.

Local, state, and federal governments continue to strengthen their position and scrutiny over practices involving or allegedly involving fraud, waste, and abuse affecting Medicare, Medicaid, other government healthcare programs, and government contracts. Our relationships with pharmaceutical and medical surgical product manufacturers and healthcare providers, as well as our provision of products and services to government entities, subject our business to laws, regulation, and government guidance on fraud and abuse. Many of these laws are vague or indefinite and have not been interpreted by the courts and, as such, may be interpreted or applied by a prosecutorial, regulatory, or judicial authority in a manner that could require us to make changes in our operations. Failure to comply with applicable laws, regulations, and government guidance, including but not limited to those involving the regulation of controlled substances, the federal Anti-Kickback Statute, and others, could subject us to federal or state government investigations or qui tam actions, and to liability for damages and civil and criminal penalties, including the loss of licenses or our ability to participate in Medicare, Medicaid and other federal and state healthcare programs, or pursue government contracts.

Healthcare Regulation: In the U.S., the Patient Protection and Affordable Care Act (“ACA”) significantly expanded health insurance coverage to uninsured Americans and changed the way healthcare is financed by both governmental and private payers. There are also further efforts to broaden healthcare coverage. U.S. lawmakers also have explored proposals to reduce drug prices, including requiring price transparency and drug importation measures. Provincial governments in Canada that provide partial funding for the purchase of pharmaceuticals and independently regulate the sale and reimbursement of drugs have sought to reduce the costs of publicly funded health programs. For example, provincial governments have taken steps to reduce consumer prices for generic pharmaceuticals and, in some provinces, change professional allowances paid to pharmacists by generic manufacturers. Many European governments provide or subsidize healthcare to consumers and regulate pharmaceutical prices, patient eligibility and reimbursement levels in order to control government healthcare system costs. Some European governments have implemented or are considering austerity measures to reduce healthcare spending. These measures exert pressure on the pricing and reimbursement timelines for pharmaceuticals and may cause our customers to purchase fewer of our products and services or influence us to reduce prices. There is substantial uncertainty about the likelihood, timing and results of these health reform efforts.

Additionally, there have been increasing efforts by governments to regulate the pharmaceutical distribution system in order to prevent the introduction of counterfeit, adulterated and/or mislabeled drugs into the pharmaceutical distribution system, otherwise known as pedigree tracking. For example, the U.S. Drug Quality and Security Act of 2013 (“DQSA”) requires us to participate in a federal prescription drug track and trace system that preempts state drug pedigree requirements, and the U.S. Food and Drug Administration Amendments Act of 2007 requires the FDA to establish standards and identify and validate effective technologies, such as track and trace or authentication technologies, to secure the pharmaceutical supply chain against counterfeit drugs. We also have record-keeping and other obligations under the E.U. Falsified Medicines Directive. Pedigree tracking laws such as these increase our compliance burden and our pharmaceutical distribution costs.

Data Security and Privacy: We are subject to a variety of privacy and data protection laws that change frequently and have requirements that vary from jurisdiction to jurisdiction. For example, under the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) we must maintain administrative, physical and

McKESSON CORPORATION

technological safeguards to protect individually identifiable health information (“protected health information”) and ensure the confidentiality, integrity, and availability of electronic protected health information. We are subject to significant compliance obligations under privacy laws such as the General Data Protection Regulation (“GDPR”) in the European Union, the Personal Information Protection and Electronic Documents Act (“PIPEDA”) in Canada, and the California Consumer Protection Act (“CCPA”). Some privacy laws prohibit the transfer of personal information to certain other jurisdictions. We are subject to privacy and data protection compliance audits or investigations by various government agencies. Failure to comply with these laws subjects us to potential regulatory enforcement activity, fines, private litigation including class actions, and other costs. We also have contractual obligations to customers that might be breached if we fail to comply with privacy laws. Our efforts to comply with privacy laws complicate our operations and add to our compliance costs.

We and our external service providers use technology and systems to perform our business operations, such as the secure electronic transmission, processing, storage and hosting of sensitive information, including protected health information and other types of personal information, confidential financial information, proprietary information, and other sensitive information relating to our customers, company and workforce. Despite physical, technical, and administrative security measures that we implement in order to, among other things, address regulatory requirements, our technology systems and operations may continue to be subject to cybersecurity incidents. The risk of cybersecurity incidents may be increased due to a variety of factors, both internal and external. A cybersecurity incident might involve a material data breach or other material impact to the integrity and operations of the technology systems and operations, which might result in litigation or regulatory action.

Environmental Regulation: We are subject to many environmental and hazardous materials regulations, including those relating to radiation-emitting equipment operated at U.S. Oncology Network practices. Additionally, our operations are subject to regulations under various federal, state, local and foreign laws concerning the environment, including laws addressing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes, and the cleanup of contaminated sites, as discussed in more detail below. We could incur substantial costs, including cleanup costs, fines and civil or criminal sanctions, and third-party damage or personal injury claims, if in the future we were to violate or become liable under environmental laws. We are committed to maintaining compliance with all environmental laws applicable to our operations, products and services and to reducing our environmental impact across all aspects of our business. We meet this commitment through an environmental strategy and sustainability program.

We sold our chemical distribution operations in 1987 and retained responsibility for certain environmental obligations. Agreements with the Environmental Protection Agency and certain states may require environmental assessments and cleanups at several closed sites. These matters are described further in Financial Note 19, “Commitments and Contingent Liabilities,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

The liability for environmental remediation and other environmental costs is accrued when the Company considers it probable and can reasonably estimate the costs. Environmental costs and accruals, including that related to our legacy chemical distribution operations, presently are not material to our operations or financial position. Although there is no assurance that existing or future environmental laws applicable to our operations or products will not have a material adverse impact on our operations or financial condition, we do not currently anticipate material capital expenditures for environmental matters. Other than the expected expenditures that may be required in connection with our legacy chemical distribution operations, we do not anticipate making substantial capital expenditures either for environmental issues or to comply with environmental laws, regulations, or government guidance in the future. The amount of our capital expenditures for environmental compliance was not material in 2021 and is not expected to be material in the next year.

McKESSON CORPORATION

Climate Change Regulation: Governments in the U.S. and abroad are considering new or expanded laws to address climate change. Such laws may include limitations on greenhouse gas (“GHG”) emissions, mandates that companies implement processes to monitor and disclose climate-related matters, additional taxes or offset charges on specified energy sources, and other requirements. Compliance with climate-related laws may be further complicated by disparate regulatory approaches in various jurisdictions. New or expanded climate-related laws could impose substantial costs on us. Until the timing and extent of climate-related laws are clarified, we cannot predict their potential effect on our capital expenditures or our results of operations.

Other Information about the Business

Customers: During 2021, sales to our ten largest customers, including group purchasing organizations (“GPOs”) accounted for approximately 51% of our total consolidated revenues. Sales to our largest customer, CVS Health Corporation (“CVS”), accounted for approximately 21% of our total consolidated revenues in 2021. In May 2019, we extended our pharmaceutical distribution relationship with CVS to June 2023. Our ten largest customers comprised approximately 32%, and CVS was approximately 19%, of total trade accounts receivable at March 31, 2021. We also have agreements with GPOs, each of which functions as a purchasing agent on behalf of member hospitals, pharmacies and other healthcare providers, as well as with government entities and agencies. The accounts receivable balances are with individual members of the GPOs, and therefore no significant concentration of credit risk exists. Substantially all of these revenues and accounts receivable are included in our U.S. Pharmaceutical segment.

Suppliers: We obtain pharmaceutical and other products from manufacturers, none of which accounted for more than 7% of our purchases in 2021. The loss of a supplier could adversely affect our business if alternate sources of supply are unavailable. We believe that our relationships with our suppliers are generally sound. The ten largest suppliers in 2021 accounted for approximately 50% of our purchases.

Some of our distribution arrangements with the manufacturers provides us compensation based on a percentage of our purchases. In addition, we have certain distribution arrangements with pharmaceutical manufacturers that include an inflation-based compensation component whereby we benefit when the manufacturers increase their prices as we sell our existing inventory at the new higher prices. For these manufacturers, a reduction in the frequency and magnitude of price increases, as well as restrictions in the amount of inventory available to us, could have an adverse impact on our gross profit margin.

Research and Development: Research and development (“R&D”) expenses were \$74 million, \$96 million, and \$71 million during 2021, 2020, and 2019, respectively.

Financial Information About Foreign and Domestic Operations: Certain financial information relating to foreign and domestic operations is included in Financial Note 22, “Segments of Business,” to the consolidated financial statements appearing in this Annual Report on Form 10-K. See “Risk Factors” in Item 1A of Part I below for information regarding risks associated with our foreign operations.

Forward-Looking Statements

This Annual Report on Form 10-K, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of Part II of this report and the “Risk Factors” in Item 1A of Part I of this report, contains forward-looking statements within the meaning of section 27A of the Securities Act of 1933 (“Securities Act”) and section 21E of the Securities Exchange Act of 1934, as amended. Some of these statements can be identified by use of forward-looking words such as “believes,” “expects,” “anticipates,” “may,” “will,” “should,” “seeks,” “approximately,” “intends,” “plans,” or “estimates,” or the negative of these words, or other comparable terminology. The discussion of financial trends, strategy, plans, or intentions may

McKESSON CORPORATION

also include forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected, anticipated, or implied. Although it is not possible to predict or identify all such risks and uncertainties, they include, but are not limited to, the factors discussed in Item 1A of Part I of this report under “Risk Factors” and in our publicly available SEC filings and press releases. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date such statements were first made. Except to the extent required by federal securities laws, we undertake no obligation to publicly release the result of any revisions to any forward-looking statements to reflect events or circumstances after the date the statements are made, or to reflect the occurrence of unanticipated events.

Item 1A. Risk Factors

The discussion below identifies certain representative risks that might cause our actual business results to materially differ from our estimates. It is not practical to identify or describe all risks and uncertainties that might materially impact our business operations, reputation, financial position or results of operations. Our business could be materially affected by risks that we have not yet identified or that we currently consider to be immaterial. This is not a complete statement of all potential risks and uncertainties.

Litigation and Regulatory Risks

We experience costly and disruptive legal disputes.

We are routinely named as a defendant in litigation or regulatory proceedings and other legal disputes, which may include asserted class action litigation, such as those described in Financial Note 19, “Commitments and Contingent Liabilities,” to the consolidated financial statements in this report. Regulatory proceedings might involve allegations such as false claims, healthcare fraud and abuse, and antitrust violations. Civil litigation proceedings might involve commercial, employment, environmental, intellectual property, tort and other claims. Despite valid defenses that we assert, legal disputes are often costly, time-consuming, distracting to management and disruptive to normal business operations. The outcome of legal disputes is difficult to predict. Outcomes can occur that are not justified by the evidence or existing law. The uncertainty and expense associated with unresolved legal disputes might harm our business and reputation even if the matter is favorably resolved. Accordingly, any legal dispute might have a materially adverse impact on our reputation, our business operations and our financial position or results of operations.

We might experience losses not covered by insurance.

Our business exposes us to risks that are inherent in the distribution, manufacturing, dispensing and administration of pharmaceuticals and medical-surgical supplies, the provision of ancillary services, the conduct of our payer businesses and the provision of products that assist clinical decision-making and relate to patient medical histories and treatment plans. For example, pharmacy operations are exposed to risks such as improper filling of prescriptions, mislabeling of prescriptions, inadequacy of warnings, unintentional distribution of counterfeit drugs and expiration of drugs. Although we seek to maintain adequate insurance coverage, such as property insurance for inventory and professional and general liability insurance, coverages on acceptable terms might be unavailable, or coverages might not cover our losses. We generally seek to limit our contractual exposure, but limitations of liability or indemnity provisions in our contracts may not be enforceable or adequately protect us from liability. Uninsured losses might have a materially adverse impact on our business operations and our financial position or results of operations.

We experience costly legal disputes, government actions and adverse publicity regarding our role in distributing controlled substances such as opioids.

The Company is a defendant in approximately 3,200 cases alleging claims related to the distribution of controlled substances (opioids), as described in Financial Note 19, “Commitments and Contingent Liabilities,” to

McKESSON CORPORATION

the consolidated financial statements in this report. We regularly are named as a defendant in similar, new cases. The plaintiffs in those cases include governmental entities (such as states, provinces, counties and municipalities) as well as businesses, groups and individuals. The cases allege violations of controlled substance laws and other laws, and they make common law claims such as negligence and public nuisance. Many of these cases raise novel theories of liability. Any proceedings can have unexpected outcomes that are not justified by evidence or existing law. All proceedings involve significant expense, management time and distraction, and risk of loss that can be difficult to predict or quantify. It is not uncommon for claims to be resolved over many years. Proceedings can result in monetary damages, penalties and fines, and injunctive or other relief. Although the Company has valid defenses and is vigorously defending itself, some proceedings have been and others may be resolved by negotiated outcome. Our reputation has been and may continue to be impacted by publicity regarding the litigation and related allegations. The adverse outcome of legal proceedings might have a materially adverse impact on our business operations and our financial position or results of operations.

We might experience increased costs to distribute controlled substances such as opioids.

Legislative, regulatory or industry measures related to the distribution of controlled substances such as prescription opioids could affect our business in ways that we may not be able to predict. For example, some states have passed legislation that could require us to pay taxes or assessments on the distribution of opioid medications in those states and other states have considered similar legislation. Liabilities for taxes or assessments or other costs of compliance under any such laws might have a materially adverse impact on our reputation, business operations, and our financial position or results of operations.

We are subject to extensive, complex and challenging healthcare and other laws.

Our industry is highly regulated, and further regulation of our distribution businesses and technology products and services could impose increased costs, negatively impact our profit margins and the profit margins of our customers, delay the introduction or implementation of our new products, or otherwise negatively impact our business and expose the Company to litigation and regulatory investigations. For example, we are subject to many environmental and hazardous materials regulations, including those relating to radiation-emitting equipment operated at U.S. Oncology Network practices. Additionally, we are subject to various routine agency (e.g., Drug Enforcement Administration (“DEA”), the U.S. Food and Drug Administration (“FDA”)) inspections to determine compliance with various federal regulations. Any noncompliance by us with applicable laws or the failure to maintain, renew or obtain necessary permits and licenses could lead to litigation and might have a materially adverse impact on our business operations and our financial position or results of operations.

We are subject to extensive and frequently changing local, state and federal laws and regulations relating to healthcare fraud, waste and abuse.

Local, state and federal governments continue to strengthen their position and scrutiny over practices involving or allegedly involving fraud, waste and abuse affecting Medicare, Medicaid and other government healthcare programs. Our relationships with pharmaceutical and medical surgical product manufacturers and healthcare providers, as well as our provision of products and services to government entities, subject our business to laws and regulations on fraud and abuse, which among other things: (1) prohibit persons from soliciting, offering, receiving or paying any remuneration in order to induce the referral of a patient for treatment or to induce the ordering or purchasing of items or services that are in any way paid for by Medicare, Medicaid or other government-sponsored healthcare programs; (2) impose many restrictions upon referring physicians and providers of designated health services under Medicare and Medicaid programs; and (3) prohibit the knowing submission of a false or fraudulent claim for payment to, and knowing retention of an overpayment by, a federal healthcare program such as Medicare and Medicaid. Many of these laws, regulations, and government guidance, including those relating to marketing incentives, are vague or indefinite and have not been interpreted by the

McKESSON CORPORATION

courts. The laws may be interpreted or applied by a prosecutorial, regulatory, or judicial authority in a manner that could require us to make changes in our operations. Failures to comply with applicable laws subject us to federal or state government investigations or qui tam actions, and to liability for damages and civil and criminal penalties, including the loss of licenses or our ability to participate in Medicare, Medicaid and other federal and state healthcare programs. These sanctions might have a materially adverse impact on our business operations and our financial position or results of operations.

We might lose our ability to purchase, compound, store or distribute pharmaceuticals and controlled substances.

We are subject to the operating and security standards of the DEA, the FDA, various state boards of pharmacy, state health departments, Department of Health and Human Services (“HHS”), the Centers for Medicare & Medicaid Services (“CMS”) and other comparable agencies. Certain of our businesses may be required to register for permits and/or licenses with, and comply with operating and security standards of, the DEA, FDA, HHS, CMS, various state boards of pharmacy, state health departments and/or comparable state agencies as well as foreign agencies and certain accrediting bodies, depending upon the type of operations and location of product development, manufacture, distribution, and sale. For example, we are required to hold valid DEA and state-level registrations and licenses, meet various security and operating standards and comply with the Controlled Substances Act and its accompanying regulations governing the sale, marketing, packaging, holding, distribution, and disposal of controlled substances. Noncompliance with these requirements has resulted in monetary penalties and/or licensing sanctions. For example, under a January 2017 agreement with the DEA and Department of Justice we paid \$150 million to settle potential administrative and civil claims about our practices for reporting suspicious orders of controlled substances and the DEA suspended, on a staggered basis for limited periods of time, our registrations to distribute certain controlled substances from four distribution centers. As of March 31, 2021, suspensions at the four distribution centers had all expired by their own terms. If we are not able to obtain, maintain or renew permits, licenses or other regulatory approvals needed for the operation of our businesses, it might have a materially adverse impact on our business operations and our financial position or results of operations.

Pedigree tracking laws increase our compliance burden and our pharmaceutical distribution costs.

There have been increasing efforts by governments to regulate the pharmaceutical distribution system in order to prevent the introduction of counterfeit, adulterated and/or mislabeled drugs into the pharmaceutical distribution system, otherwise known as pedigree tracking. For example, the U.S. Drug Quality and Security Act of 2013 (“DQSA”) requires us to participate in a federal prescription drug track and trace system that preempts state drug pedigree requirements, and the U.S. Food and Drug Administration Amendments Act of 2007 requires the FDA to establish standards and identify and validate effective technologies, such as track and trace or authentication technologies, to secure the pharmaceutical supply chain against counterfeit drugs. We also have record-keeping and other obligations under the E.U. Falsified Medicines Directive. Pedigree tracking laws such as these increase our compliance burden and our pharmaceutical distribution costs, and they might have a materially adverse impact on our business operations and our financial position or results of operations.

Privacy and data protection laws increase our compliance burden.

We are subject to a variety of privacy and data protection laws that change frequently and have requirements that vary from jurisdiction to jurisdiction. For example, under the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) we must maintain administrative, physical and technological safeguards to protect individually identifiable health information (“protected health information”) and ensure the confidentiality, integrity and availability of electronic protected health information. We are subject to significant compliance obligations under privacy laws such as the General Data Protection Regulation in the European

McKESSON CORPORATION

Union (“GDPR”), the Personal Information Protection and Electronic Documents Act (“PIPEDA”) in Canada, and the California Consumer Protection Act (“CCPA”). Some privacy laws prohibit the transfer of personal information to certain other jurisdictions. We are subject to privacy and data protection compliance audits or investigations by various government agencies. Failure to comply with these laws subjects us to potential regulatory enforcement activity, fines, private litigation including class actions, and other costs. We also have contractual obligations to customers that might be breached if we fail to comply with privacy laws. Our efforts to comply with privacy laws complicates our operations and adds to our compliance costs. A significant privacy breach or failure to comply with privacy laws might have a materially adverse impact on our reputation, business operations and our financial position or results of operations.

Anti-bribery and anti-corruption laws increase our compliance burden.

We are subject to laws prohibiting improper payments and bribery, including the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and similar regulations in foreign jurisdictions. The U.K. Bribery Act, for example, prohibits both domestic and international bribery, as well as bribery across both private and public sectors. An organization that fails to prevent bribery committed by anyone associated with the organization can be charged under the U.K. Bribery Act unless the organization can establish the defense of having implemented adequate procedures to prevent bribery. Our failure to comply with these laws might subject us to civil and criminal penalties that might have a materially adverse impact on our reputation, business operations and our financial position or results of operations.

Company and Operational Risks

We might record significant charges from impairment to goodwill, intangibles and other assets or investments.

We are required under U.S. Generally Accepted Accounting Principles (“GAAP”) to test our goodwill for impairment annually or more frequently if indicators for potential impairment exist. Indicators that are considered include significant changes in performance relative to expected operating results, significant changes in the use of the assets, significant negative industry or economic trends or a significant decline in the Company’s stock price and/or market capitalization for a sustained period of time. In addition, we periodically review our intangible and other long-lived assets for impairment when events or changes in circumstances, such as a divestiture, indicate the carrying value may not be recoverable. Factors that may be considered a change in circumstances indicating that the carrying value of our intangible and other long-lived assets may not be recoverable include slower growth rates, the loss of a significant customer, burdensome new laws or divestiture of a business or asset for less than its carrying value. There are inherent uncertainties in management’s estimates, judgments and assumptions used in assessing recoverability of goodwill, intangible and other long-lived assets. Any material changes in key assumptions, including failure to meet business plans, negative changes in government reimbursement rates, a deterioration in the U.S. and global financial markets, an increase in interest rate or an increase in the cost of equity financing by market participants within the industry or other unanticipated events and circumstances, may decrease the projected cash flows or increase the discount rates and could potentially result in an impairment charge. For example, the COVID-19 pandemic has disrupted the global economy and exacerbated uncertainties inherent in estimates, judgments and assumptions used in our forecasts and impairment assessments. We may be required to record a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill or intangible and other long-lived assets is determined, which might have a materially adverse impact on our business operations and our financial position or results of operations.

We experience cybersecurity incidents that might significantly compromise our technology systems or might result in material data breaches.

We and our external service providers use technology and systems to perform our business operations, such as the secure electronic transmission, processing, storage and hosting of sensitive information, including

McKESSON CORPORATION

protected health information and other types of personal information, confidential financial information, proprietary information, and other sensitive information relating to our customers, company and workforce. Despite physical, technical, and administrative security measures, our technology systems and operations have been, and likely will continue to be, subject to cyberattacks from sources beyond our control. Cybersecurity incidents include actual or attempted unauthorized access, tampering, malware insertion, ransomware attacks or other system integrity events. The risk of cyberattacks may be increased due to a variety of factors, both internal and external. A cybersecurity incident might involve a material data breach or other material impact to the integrity and operations of our technology systems, which might result in litigation or regulatory action, loss of customers or revenue, and increased expense, any of which might have a materially adverse impact on our business operations, reputation, and our financial position or results of operations.

We might experience significant problems with information systems or networks.

We rely on sophisticated information systems and networks to perform our business operations, such as to obtain, rapidly process, analyze and manage data that facilitate the purchase and distribution of thousands of inventory items from distribution centers. If those information systems suffer errors, interruptions, or become unavailable, there might be a materially adverse impact on our business operations, reputation, and our financial position or results of operations.

Our products or services might not conform to specifications or perform as we intend.

We sell and provide services involving complex software and technology that may contain errors, especially when first introduced to market. Healthcare professionals delivering patient care tend to have heightened sensitivity to system and software errors. If our software and technology services are alleged to have contributed to faulty clinical decisions or injury to patients, we might be subject to claims or litigation by users of our software or services or their patients. Errors or failures might damage our reputation and negatively affect future sales. A failure of a system or software to conform to specifications might constitute a breach of warranty that could result in repair costs, contract termination, refunds of amounts previously paid or claims for damages. Any of these types of errors or failures might have a materially adverse impact on our reputation, business operations and our financial position or results of operations.

We might be impeded in providing customers online services and data access.

We provide remote services that involve hosting customer data and operating software on our own or third party systems. Our customers rely on their ability to access the systems and their data as needed. The networks and hosting systems are vulnerable to interruption or damage from sources beyond our control, such as power loss, telecommunications failures, fire, natural disasters, software and hardware failures and cyberattacks. If the timely delivery of medical care or other customer business requirements are impaired by data access, network or systems problems, we could be exposed to significant claims and reputational harm. Any such problems might have a materially adverse impact on our business operations and our financial position or results of operations.

We might not realize expected benefits from business process initiatives.

We may implement restructuring, cost reduction or other business process initiatives that might result in extraordinary charges and expenses, failures to achieve our desired objectives, or unintended consequences such as distraction of our management and employees, business disruption, attrition beyond any planned reduction in workforce, inability to attract or retain key personnel and reduced employee productivity. Any of these risks might have a materially adverse impact on our business operations and our financial position or results of operations.

McKESSON CORPORATION

We might be unable to successfully complete or integrate acquisitions or other business combinations.

Our growth strategy includes consummating acquisitions or other business combinations that either expand or complement our business. To fund acquisitions, we may require financing that may not be available on acceptable terms. We may not receive regulatory approvals needed to complete proposed transactions, or such approvals may be subject to delays or conditions that reduce transaction benefits. Achieving the desired outcomes of business combinations involves significant risks including: diverting management's attention from other business operations; challenges with assimilating the acquired businesses, such as integration of operations and systems; failure or delay in realizing operating synergies; difficulty retaining key acquired company personnel; unanticipated accounting or financial systems issues with the acquired business, which might affect our internal controls over financial reporting; unanticipated compliance issues in the acquired business; challenges retaining customers of the acquired business; unanticipated expenses or charges to earnings, including depreciation and amortization or potential impairment charges; and risks of known and unknown assumed liabilities in the acquired business. Any of these risks could adversely affect our ability to achieve the anticipated benefits of an acquisition and might have a materially adverse impact on our business operations and our financial position or results of operations.

Exclusive forum provisions in our Bylaws could limit our stockholders' ability to choose their preferred judicial forum for disputes with us or our directors, officers or employees.

Our amended and restated bylaws provide that, unless the Corporation consents in writing to the selection of an alternative forum, the sole and exclusive forum for specified legal actions is the Court of Chancery of the State of Delaware or the United States District Court for the District of Delaware if the Court of Chancery does not have or declines to accept jurisdiction (collectively, "Delaware Courts"). Current and former stockholders are deemed to have consented to the personal jurisdiction of the Delaware Courts in connection with any action to enforce that exclusive forum provision and to service of process in any such action. These provisions of the bylaws are not a waiver of, and do not relieve anyone of duties to comply with, federal securities laws including those specifying the exclusive jurisdiction of federal courts under the Exchange Act and concurrent jurisdiction of federal and state courts under the Securities Act. To the extent that these provisions of the bylaws limit a current or former stockholder's ability to select a judicial forum other than the Delaware Courts, they might discourage the specified legal actions, might cause current or former stockholders to incur additional litigation-related expenses and might result in outcomes unfavorable to current or former stockholders. A court might determine that these provisions of the bylaws are inapplicable or unenforceable in any particular action, in which case we may incur additional litigation related expenses in such action, and the action may result in outcomes unfavorable to us, which could have a materially adverse impact on our reputation, our business operations and our financial position or results of operations.

We might be adversely impacted by delays or other difficulties with divestitures.

When we decide to sell assets or a business, we may encounter difficulty in finding buyers or exit strategies on acceptable terms or in a timely manner, which could delay the achievement of our strategic objectives. After the disposition, we might experience greater dissynergies than expected, and the impact of the divestiture on our revenue or profit might be larger than we expected. We might have difficulties with pre-closing conditions such as regulatory and governmental approvals, which could delay or prevent the divestiture. We might have financial exposure in a divested business, such as through minority equity ownership, financial or performance guarantees, indemnities or other obligations, such that conditions outside of our control might negate the expected benefits of the disposition. Any of these risks could adversely affect our ability to achieve the anticipated benefits of a divestiture and might have a materially adverse impact on our business operations and our financial position or results of operations.

McKESSON CORPORATION

We might not realize the expected tax treatment from our split-off of Change Healthcare.

On March 10, 2020, the Company completed a separation of its interest in Change Healthcare LLC (“Change Healthcare JV”). The divestiture was effected through the split-off of PF2 SpinCo, Inc. (“SpinCo”), a wholly owned subsidiary of the Company that held all of the Company’s interest in the Change Healthcare JV, to certain of the Company’s stockholders through an exchange offer (the “Exchange Offer”), followed by a merger of SpinCo with and into Change Healthcare Inc. (“Change”), with Change surviving the merger (the “Merger” and, together with the Exchange Offer, the “Transactions”). The Company received an opinion from outside legal counsel to the effect that the Transactions qualified as generally tax-free transactions to the Company and its shareholders for U.S. federal income tax purposes. An opinion of legal counsel is not binding on the Internal Revenue Service (the “IRS”) or the courts, and the IRS or the courts may not agree with the intended tax-free treatment of the Transactions. In addition, the opinion could not be relied upon if certain assumptions, representations and undertakings upon which the opinion was based are materially inaccurate or incomplete, or are violated in any material respect. If the intended tax-free treatment of the Transactions is not sustained, the Company and its stockholders who participated in the Transactions may be required to pay substantial U.S. federal income taxes. In connection with the Transactions, the Company, SpinCo, Change and the Change Healthcare JV entered into the Tax Matters Agreement, which governs their respective rights, responsibilities and obligations with respect to tax liabilities and benefits, tax attributes, tax contests and other tax sharing regarding U.S. federal, state and local, and non-U.S. taxes, other tax matters and related tax returns. Under the Tax Matters Agreement, Change is required to indemnify the Company if the Transactions become taxable as a result of certain actions by Change or SpinCo, or as a result of certain changes in ownership of the stock of Change after the Merger. If Change does not honor its obligations to indemnify the Company, or if the Transactions fail to qualify for the intended tax-free treatment for reasons not related to a disqualifying action by Change or SpinCo, the resulting tax to the Company could have a significant adverse effect on our financial position or results of operations.

We might be adversely impacted by outsourcing or similar third-party relationships.

We rely on third parties to perform certain business and administrative functions for us. We might not adequately develop, implement and monitor these outsourced service providers, and we might not realize expected cost savings or other benefits. Third-party services providers might fail to perform as anticipated, or we might experience unanticipated operational difficulties, compliance requirements or increased costs related to outsourced services. For example, our ability to use outsourcing resources in certain jurisdictions might be limited by legislative action or customer contracts, with the result that the work must be performed at greater expense or we may be subject to sanctions for non-compliance. Any of these risks might have a materially adverse impact on our business operations and our financial position or results of operations.

We may be unsuccessful in retail pharmacy operations or maintaining profitability.

Our business strategy included expanding our retail pharmacy operations. Our retail pharmacy operations involve numerous risks, such as the following ones. We might encounter difficulties attracting and retaining customers to our retail locations due to their unfamiliarity with our brands or our inexperience with local market preferences. Competition from our retail pharmacy operations might strain relationships with our retail pharmacy customers. Consolidation of retail pharmacies with third party payers, expansion of large retail pharmacy networks, reductions in reimbursement rates, shifts in the mix of branded and generic pharmaceutical sales, and exclusion from preferred pharmacy networks can impair our retail pharmacy sales and profitability. Failure to maintain profitable retail pharmacy operations may result in significant costs, including those associated with site closures and reductions in workforce. If our retail pharmacy operations fail to achieve, or are unable to sustain, acceptable net sales and profitability levels, it might have a materially adverse impact on our business operations and our financial position or results of operations.

McKESSON CORPORATION

We might be harmed by large customer purchase reductions, payment defaults or contract non-renewal.

We derive a significant portion of our revenue from, and have a significant portion of our accounts receivable with, a small number of customers. At March 31, 2021, sales to our largest customer represented approximately 21% of our consolidated revenues and approximately 19% of our trade receivables, and those of our ten largest customers combined accounted for approximately 51% of our consolidated revenues and approximately 32% of our trade receivables. A material default in payment, reduction in purchases, or the loss of business from a large customer might have a materially adverse impact on our business operations and our financial position or results of operations.

Our contracts with government entities involve future funding and compliance risks.

Our contracts with government entities are subject to risks such as lack of funding and compliance with unique requirements. For example, government contract purchase obligations are typically subject to the availability of funding, which may be eliminated or reduced. In addition, the future volume of products or services purchased by a government customer is uncertain. Our government contracts might not be renewed or might be terminated for convenience with little or no prior notice. Government contracts typically expose us to higher potential liability than do other types of contracts. In addition, government contracts typically are subject to procurement laws that include socio-economic, employment practices, environmental protection, recordkeeping and accounting and other requirements. For example, our contracts with the U.S. government generally require us to comply with the Federal Acquisition Regulations, Procurement Integrity Act, Buy American Act, Trade Agreements Act, and other laws and regulations. We are subject to government audits, investigations and oversight proceedings. Government agencies routinely review and audit government contractors to determine whether they are complying with contractual and legal requirements. If we fail to comply with these requirements, or we fail an audit, we are subject to various sanctions such as monetary damages, criminal and civil penalties, termination of contracts and suspension or debarment from government contract work. These requirements complicate our business and increase our compliance burden. The occurrence of any of these risks could harm our reputation and might have a materially adverse impact on our business operations and our financial position or results of operations.

Our participation in vaccination distribution programs may materially affect our operating results, reputation, and business.

We participate as a distributor in government-sponsored vaccination programs, such as the U.S. government's COVID-19 distribution program ("Federal COVID-19 Response"). We also provide supplies used for vaccine administration in the Federal COVID-19 Response. Our participation in such programs exposes us to various uncertainties. For example, the novel nature of the SARS-CoV-2 virus and the broad scope of the ongoing COVID-19 vaccine distribution program introduce uncertainty about what volumes of products may become available for distribution by us, the effectiveness of vaccines, and the cost of distribution. Because of such uncertainties, our operating results may be subject to variability. Our participation in such programs also exposes us to various risks, including regulatory compliance, government oversight, dependence on government funding, contractual performance, litigation, security risks, and supply chain challenges. Any significant problems with our participation in such programs might have a materially adverse impact on our reputation and our business. Because of these risks and uncertainties our operating results may be materially higher or lower than our projections.

We might be harmed by changes in our relationships or contracts with suppliers.

We attempt to structure our pharmaceutical distribution agreements with manufacturers to ensure that we are appropriately and predictably compensated for the services we provide. Certain distribution agreements with

McKESSON CORPORATION

manufacturers include pharmaceutical price inflation as a component of our compensation, and we cannot control the frequency or magnitude of pharmaceutical price changes. We might be unable to renew pharmaceutical distribution agreements with manufacturers in a timely and favorable manner. Any of these risks might have a materially adverse impact on our business operations and our financial position or results of operations.

We might infringe intellectual property rights or our intellectual property protections might be inadequate.

We believe that our products and services do not infringe the proprietary rights of third parties, but third parties have asserted infringement claims against us and may do so in the future. If a court were to hold that we infringed other's rights, we might be required to pay substantial damages, develop non-infringing products or services, obtain a license, stop selling or using the infringing products or services, or incur other sanctions. We rely on trade secret, patent, copyright and trademark laws, nondisclosure obligations and other contractual provisions and technical measures to protect our proprietary rights in our products and solutions. We might initiate costly and time-consuming litigation to protect our trade secrets, to enforce our patent, copyright and trademark rights and to determine the scope and validity of the proprietary rights of others. Our intellectual property protection efforts might be inadequate to protect our rights. Our competitors might develop non-infringing products or services equivalent or superior to ours. Any of these risks might have a materially adverse impact on our business operations and our financial position or results of operations.

We might be unable to successfully recruit and retain qualified employees.

Our ability to attract, engage, develop and retain qualified and experienced employees, including key executives and other talent, is essential for us to meet our objectives. We compete with many other businesses to attract and retain employees. Competition among potential employers might result in increased salaries, benefits or other employee-related costs, or in our failure to recruit and retain employees. We may experience sudden loss of key personnel due to a variety of causes, such as illness, and must adequately plan for succession of key management roles. Employees might not successfully transition into new roles. Any of these risks might have a materially adverse impact on our business operations and our financial position or results of operations.

Industry and Economic Risks

We might be adversely impacted by healthcare reform such as changes in pricing and reimbursement models.

Many of our products and services are designed and intended to function within the structure of current healthcare financing and reimbursement systems. The healthcare industry and related government programs are changing. Some of these changes increase our risks and create uncertainties for our business.

For example, some changes in reimbursement methodologies (including government rates) for pharmaceuticals, medical treatments and related services reduce profit margins for us and our customers and impose new legal requirements on healthcare providers. Those changes have included cuts in Medicare and Medicaid reimbursement levels, changes in the basis for payments, shifting away from fee-for-service and towards value-based payments and risk-sharing models, and increases in the use of managed care.

In the U.S., the Patient Protection and Affordable Care Act ("ACA") significantly expanded health insurance coverage to uninsured Americans and changed the way healthcare is financed by both governmental and private payers. There are continued efforts to challenge the ACA. There are also efforts to broaden healthcare coverage. U.S. lawmakers also have explored proposals to reduce drug prices, including requiring price transparency and drug importation measures. These proposals might result in significant changes in the pharmaceutical value chain as manufacturers, PBM, managed care organizations and other industry stakeholders look to implement new transactional flows and adapt their business models.

McKESSON CORPORATION

Provincial governments in Canada that provide partial funding for the purchase of pharmaceuticals and independently regulate the sale and reimbursement of drugs have sought to reduce the costs of publicly funded health programs. For example, provincial governments have taken steps to reduce consumer prices for generic pharmaceuticals and, in some provinces, change professional allowances paid to pharmacists by generic manufacturers.

Many European governments provide or subsidize healthcare to consumers and regulate pharmaceutical prices, patient eligibility and reimbursement levels in order to control government healthcare system costs. Some European governments have implemented or are considering austerity measures to reduce healthcare spending. These measures exert pressure on the pricing and reimbursement timelines for pharmaceuticals and may cause our customers to purchase fewer of our products and services or influence us to reduce prices.

Although there is substantial uncertainty about the likelihood, timing and results of these health reform efforts, their implementation might have a materially adverse impact on our business operations and our financial position or results of operations.

We might be adversely impacted by competition and industry consolidation.

Our businesses face a highly competitive global environment with strong competition from international, national, regional and local full-line, short-line and specialty distributors, service merchandisers, self-warehousing chain drug stores, manufacturers engaged in direct distribution, third-party logistics companies and large payer organizations. In addition, our businesses face competition from various other service providers and from pharmaceutical and other healthcare manufacturers as well as other potential customers, which may from time-to-time decide to develop, for their own internal needs, supply management capabilities that might otherwise be provided by our businesses. Due to consolidation, a few large suppliers control a significant share of the pharmaceuticals market. This concentration reduces our ability to negotiate favorable terms with suppliers and causes us to depend on a smaller number of suppliers. Many of our customers, including healthcare organizations, have consolidated and have greater power to negotiate favorable prices. Consolidation by our customers, suppliers and competitors might reduce the number of market participants and give the remaining enterprises greater bargaining power, which might lead to erosion in our profit margin. Consolidation might increase counter-party credit risk because credit purchases increase for fewer market participants. These competitive pressures and industry consolidation might have a materially adverse impact on our business operations and our financial position or results of operations.

We might be adversely impacted by changes or disruptions in product supply.

Our supply arrangements might be interrupted or adversely affected by a variety of causes over which we have no control, such as export controls or trade sanctions, labor disputes, unavailability of key manufacturing sites, inability to procure raw materials, quality control concerns, ethical sourcing issues, supplier's financial distress, natural disasters, civil unrest or acts of war. Our inventory might be requisitioned, diverted or allocated by government order such as under emergency, disaster and civil defense declarations. For example, government actions in response to the COVID-19 pandemic affect our supply allocation, and those and our own allocation decisions can impact our customer relationships. Changes in the healthcare industry's or our suppliers' pricing, selling, inventory, distribution or supply policies or practices could significantly reduce our revenues and net income. We might experience disruptions in our supply of higher margin pharmaceuticals, including generic pharmaceuticals. Any of these changes or disruptions might have a materially adverse impact on our business operations and our financial position or results of operations.

We might be adversely impacted as a result of our distribution of generic pharmaceuticals.

Our generic pharmaceuticals distribution business is subject to pricing risks. We might be adversely impacted if our ClarusONE generic pharmaceutical sourcing joint venture with Walmart, Inc. is unsuccessful or

McKESSON CORPORATION

experiences margins declines. Generic drug manufacturers often offer a generic version of branded pharmaceuticals while they challenge the validity or enforceability branded pharmaceutical patents. The patent holder might assert infringement claims against us for distributing those generic versions and the generic drug manufactures may not fully indemnify us against such claims. These risks, as well as changes in the availability, pricing volatility, reimbursement rates for generic drugs, or significant changes in the nature, frequency or magnitude of generic pharmaceutical launches, might have a materially adverse impact on our business operations and our financial position or results of operations.

We might be adversely impacted by an economic slowdown or recession.

An economic slowdown or recession affecting our businesses in one or more regions could reduce the prices our customers are able or willing to pay for our products and services and the volume of their purchases. This risk is increased by the COVID-19 pandemic. Any economic slowdown or recession might have a materially adverse impact on our business operations and our financial position or results of operations.

Disruption or other changes in capital and credit markets might impede access to credit and increase borrowing costs for us and our customers and suppliers and might impair the financial soundness of our customers and suppliers.

Volatility and disruption in global capital and credit markets, including the bankruptcy or restructuring of certain financial institutions, reduced lending activity by financial institutions, or decreased liquidity and increased costs in the commercial paper market, might adversely affect our borrowing ability and cost of borrowing. We generally sell our products and services under short-term unsecured credit arrangements. An adverse change in general economic conditions or access to capital might cause our customers to reduce their purchases from us, or delay or fail paying amounts owed to us. Suppliers might increase their prices, reduce their output or change their terms of sale due to limited availability of credit. Suppliers might be unable to make payments due to us for fees, returned products or incentives. These risks are increased by the COVID-19 pandemic. Interest rate increases or changes in capital market conditions might impede our or our customers' or suppliers' ability or cost to obtain credit. Any of these risks might have a material adverse impact on our business operations and our financial position or results of operations.

We may have difficulties in sourcing or selling products due to a variety of causes.

We might experience difficulties and delays in sourcing and selling products due to a variety of causes, such as: difficulties in complying with the legal requirements for export or import of pharmaceuticals or components; suppliers' failure to satisfy production demand; manufacturing or supply problems such as inadequate resources; and real or perceived quality issues. Difficulties in product manufacturing or access to raw materials could result in supplier production shutdowns, product shortages and other supply disruptions. The FDA banned certain manufacturers from selling raw materials and drug ingredients in the U.S. due to quality issues. The COVID-19 pandemic adversely affects the availability of some products, resulting in product allocation and delivery delays. Any of these risks might have a materially adverse impact on our business operations and our financial position or results of operations.

We might be adversely impacted by tax legislation or challenges to our tax positions.

We are subject to the tax laws in the U.S. at the federal, state and local government levels and to the tax laws of many other jurisdictions in which we operate or sell products or services. Tax laws might change in ways that adversely affect our tax positions, effective tax rate and cash flow. The tax laws are extremely complex and subject to varying interpretations. We are subject to tax examinations in various jurisdictions that might assess additional tax liabilities against us. Our tax reporting positions might be challenged by relevant tax authorities, we might incur significant expense in our efforts to defend those challenges, and we might be unsuccessful in those efforts. Developments in examinations and challenges might materially change our provision for taxes in the affected

McKESSON CORPORATION

periods and might differ materially from our historical tax accruals. Any of these risks might have a materially adverse impact on our business operations, our cash flows and our financial position or results of operations.

We might be adversely impacted by the Brexit withdrawal of the United Kingdom from the European Union.

We have operations in the U.K. and the European Union (“E.U.”) and face risks associated with the uncertainty and potential disruptions that might follow the U.K. withdrawing from the European Union (“Brexit”). Brexit could adversely affect political, regulatory, economic or market conditions and contribute to instability in global political institutions, regulatory agencies and financial markets. For example, we might experience volatility in exchange rates and interest rates and changes in laws regulating our U.K. operations. Customers might reduce purchases due to the uncertainty caused by Brexit. Any of these risks might have a materially adverse impact on our business operations and our financial position or results of operations.

We might be adversely impacted by fluctuations in foreign currency exchange rates.

We conduct our business in various currencies, including the U.S. dollar, euro, British pound sterling and Canadian dollar. Changes in foreign currency exchange rates could reduce our revenues, increase our costs or otherwise adversely affect our financial results reported in U.S. dollars. For example, we are exposed to transactional currency exchange risk due to our import and export of products that are purchased or sold in currencies other than the U.S. dollar. We also have currency exchange risk due to intercompany loans denominated in various currencies. The COVID-19 pandemic has affected and might increase currency exchange rate volatility. We may from time to time enter into foreign currency contracts, foreign currency borrowings or other techniques intended to hedge a portion of our foreign currency exchange rate risks. These hedging activities may not completely offset the adverse financial effects of unfavorable movements in foreign currency exchange rates during the time the hedges are in place. Any of these risks might have a materially adverse impact on our business operations and our financial position or results of operations.

General Risk Factors

We might be adversely impacted by events outside of our control, such as widespread public health issues, natural disasters, political events and other catastrophic events.

We might be adversely affected by events outside of our control, including: widespread public health issues, such as epidemic or pandemic infectious diseases; natural disasters such as earthquakes, floods or severe weather; political events such as terrorism, military conflicts and trade wars; and other catastrophic events. These events can disrupt operations for us, our suppliers, our vendors, and our customers. For example, in February 2021, a severe winter storm affecting the United States temporarily impacted our distribution business operations, primarily in Texas. They might affect consumer confidence levels and spending. In response to these events, we might suspend operations, implement extraordinary procedures, seek alternate sources for product supply, or suffer consequences that are unexpected and difficult to mitigate. In particular, the rapid and widespread transmission of the SARS-CoV-2 novel coronavirus beginning in late 2019 impacts us in significant ways. For example, to mitigate the spread of the COVID-19 disease caused by SARS-CoV-2, we implemented travel restrictions and remote working arrangements for most of our employees in order to minimize physical contact, and we implemented additional sanitation and personal protection measures in our warehouse, retail pharmacy and delivery operations. These measures might not fully mitigate COVID-19 risks to our workforce and we could experience unusual levels of absenteeism that might impair operations and delay delivery of products. The COVID-19 pandemic affects product manufacturing, supply and transport availability and cost. The pandemic reduces demand for some products due to delays or cancellations of elective medical procedures, consumer self-isolation and business closures, among other reasons. The COVID-19 pandemic influences shortages of some products, with product allocation resulting in delivery delays for customers. The ongoing impacts of the pandemic might cause a general economic slowdown or recession in one or more markets, disruptions and volatility in global capital markets and other broad and adverse effects on the economy, business

McKESSON CORPORATION

conditions, commercial activity and the healthcare industry. The pandemic might impact our business operation, financial position and results of operation in unpredictable ways that depend on highly uncertain future developments, such as determining the effectiveness of current or future government actions to address the public health or economic impacts of the pandemic. Any of these risks might have a materially adverse impact on our business operations and our financial position or results of operations.

We may be adversely affected by global climate change or by legal, regulatory or market responses to such change.

The long-term effects of climate change are difficult to predict and may be widespread. The impacts may include physical risks (such as rising sea levels or frequency and severity of extreme weather conditions), social and human effects (such as population dislocations or harm to health and well-being), compliance costs and transition risks (such as regulatory or technology changes) and other adverse effects. The effects could impair, for example, the availability and cost of certain products, commodities and energy (including utilities), which in turn may impact our ability to procure goods or services required for the operation of our business at the quantities and levels we require. We bear losses incurred as a result of, for example, physical damage to or destruction of our facilities (such as distribution or fulfillment centers), loss or spoilage of inventory, and business interruption due to weather events that may be attributable to climate change. These events and impacts could materially adversely affect our business operations, financial position or results of operation.

We might be adversely impacted by changes in accounting standards.

Our consolidated financial statements are subject to the application of U.S. GAAP, which periodically is revised or reinterpreted. From time to time, we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the Financial Accounting Standards Board (“FASB”) and the SEC. It is possible that future accounting standards may require changes to the accounting treatment in our consolidated financial statements and may require us to make significant changes to our financial systems. Such changes might have a materially adverse impact on our financial position or results of operations.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Because of the nature of our principal businesses, our plant, warehousing, retail pharmacies, office and other facilities are operated in widely dispersed locations, primarily throughout North America and Europe. Retail pharmacies and most warehouses are typically owned or leased on a long-term basis. We consider our operating properties to be in satisfactory condition and adequate to meet our needs for the next several years without making capital expenditures materially higher than historical levels. Information as to material lease commitments is included in Financial Note 11, “Leases,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Item 3. Legal Proceedings.

Certain legal proceedings in which we are involved are discussed in Financial Note 19, “Commitments and Contingent Liabilities,” to the consolidated financial statements appearing in this Annual Report on Form 10-K. Disclosure of an environmental proceeding where a governmental agency is a party generally is included only if we expect monetary sanctions in the proceeding to exceed \$1 million, unless otherwise material.

Item 4. Mine Safety Disclosures.

Not applicable.

McKESSON CORPORATION

Information about our Executive Officers

The following table sets forth information regarding the executive officers of the Company, including their principal occupations during the past five years. The number of years of service with the Company includes service with predecessor companies.

There are no family relationships between any of the executive officers or directors of the Company. The executive officers are elected on an annual basis generally and their term expires at the first meeting of the Board of Directors (“Board”) following the annual meeting of stockholders, or until their successors are elected and have qualified, or until death, resignation, or removal, whichever is sooner.

<u>Name</u>	<u>Age</u>	<u>Position with Registrant and Business Experience</u>
Brian S. Tyler	54	Chief Executive Officer since April 2019; President and Chief Operating Officer from August 2018 to March 2019; Chairman of the Management Board of McKesson Europe AG from 2017 to 2018; President and Chief Operating Officer, McKesson Europe from 2016 to 2017; President of North America Distribution and Services from 2015 to 2016; Executive Vice President, Corporate Strategy and Business Development from 2012 to 2015; and a director since April 2019. Service with the Company — 24 years.
Britt J. Vitalone	52	Executive Vice President and Chief Financial Officer since January 2018; Senior Vice President and Chief Financial Officer, U.S. Pharmaceutical from July 2014 to December 2017; Senior Vice President and Chief Financial Officer, U.S. Pharmaceutical and Specialty Health from October 2017 to December 2017; Senior Vice President of Corporate Finance and M&A Finance from March 2012 to June 2014. Service with the Company — 15 years.
Tracy Faber	51	Executive Vice President and Chief Human Resources Officer since October 2019. Previously, Senior Vice President of Human Resources. Service with the Company — 10 years.
Nancy Flores	54	Executive Vice President, Chief Information Officer and Chief Technology Officer since January 2020; Chief Information Officer, Johnson Controls from 2018 to July 2019. Corporate Officer and Vice President of Business and Technology Services, Abbott Laboratories from 1996 to 2018. Service with the Company — 1 year.
Tom Rodgers	50	Executive Vice President, Chief Strategy Officer since June 2020. Previously Senior Vice President and Managing Director of McKesson Ventures from 2014-2020. Service with the Company — 7 years.
Lori A. Schechter	59	Executive Vice President, Chief Legal Officer and General Counsel since June 2014; Associate General Counsel from January 2012 to June 2014; Litigation Partner, Morrison & Foerster LLP from 1995 to December 2011. Service with the Company — 9 years.

McKESSON CORPORATION

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information: The principal market on which our common stock is traded is the New York Stock Exchange ("NYSE") under the trading symbol of "MCK."

Holders: The number of record holders of our common stock at March 31, 2021 was approximately 4,841.

Dividends: In July 2020, our quarterly dividend was raised from \$0.41 to \$0.42 per common share for dividends declared on or after such date by the Board. We declared regular cash dividends of \$1.67 and \$1.62 per share in the years ended March 31, 2021 and 2020, respectively.

We anticipate that we will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon our future earnings, financial condition, capital requirements, and other factors.

Securities Authorized for Issuance under Equity Compensation Plans: Information relating to this item is provided under Part III, Item 12, to this Annual Report on Form 10-K.

Share Repurchase Plans: Stock repurchases may be made from time-to-time in open market transactions, privately negotiated transactions, through accelerated share repurchase ("ASR") programs, or by combinations of such methods, any of which may use pre-arranged trading plans that are designed to meet the requirements of Rule 10b5-1(c) of the Securities Exchange Act of 1934. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including the Company's stock price, corporate and regulatory requirements, restrictions under the Company's debt obligations, and other market and economic conditions.

During the last three years, our share repurchases were transacted through both open market transactions and ASR programs with third-party financial institutions.

	Share Repurchases ⁽¹⁾		
	Total Number of Shares Purchased ⁽²⁾	Average Price Paid Per Share	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
<i>(In millions, except price per share data)</i>			
Balance, March 31, 2018			\$ 1,096
Shares repurchase plans authorized in May 2018			4,000
Shares repurchased — Open market	10.4	\$132.14	(1,377)
Shares repurchased — ASR	2.1	\$117.98	(250)
Balance, March 31, 2019			3,469
Shares repurchased — Open market	9.2	\$144.68	(1,334)
Shares repurchased — ASR	4.7	\$127.68	(600)
Balance, March 31, 2020			1,535
Shares repurchase plans authorized in January 2021			2,000
Shares repurchased — Open market ⁽³⁾	4.7	\$160.33	(750)
Balance, March 31, 2021			<u>\$ 2,785</u>

McKESSON CORPORATION

- (1) This table does not include the value of equity awards surrendered to satisfy tax withholding obligations. It also excludes shares related to our Split-off of the Change Healthcare JV as described in Financial Note 20, “Stockholders’ Equity” to the accompanying consolidated financial statements included in this Annual Report on Form 10-K.
- (2) The number of shares purchased reflects rounding adjustments.
- (3) \$8 million was accrued within “Other accrued liabilities” on our Consolidated Balance Sheet as of March 31, 2021 for share repurchases that were executed in late March and settled in early April.

In 2019, we retired 5.0 million or \$542 million of our treasury shares previously repurchased. Under the applicable state law, these shares resume the status of authorized and unissued shares upon retirement. In accordance with our accounting policy, we allocate any excess of share repurchase price over par value between additional paid-in capital and retained earnings. Accordingly, our retained earnings and additional paid-in capital were reduced by \$472 million and \$70 million, respectively, during 2019.

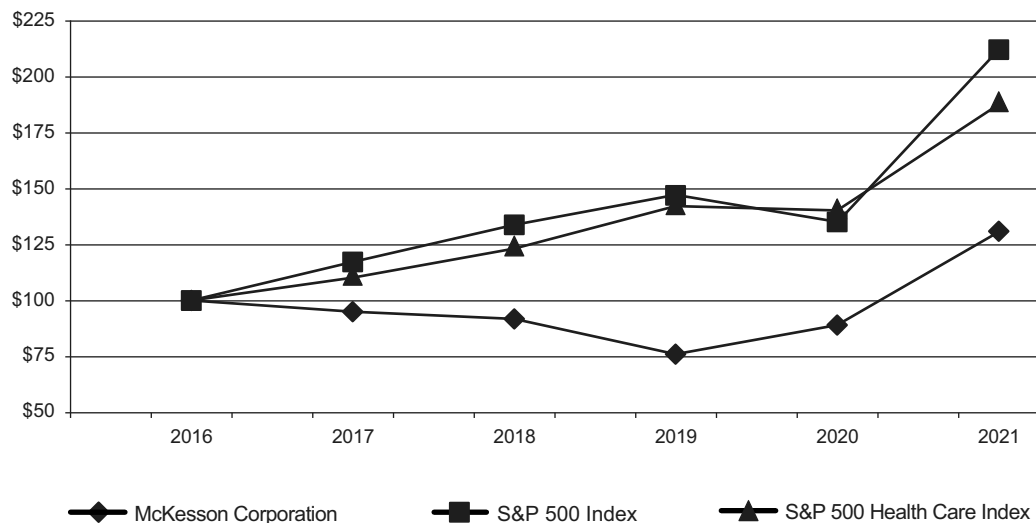
The following table provides information on our share repurchases during the fourth quarter of 2021:

	Share Repurchases ⁽¹⁾			
	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
<i>(In millions, except price per share)</i>				
January 1, 2021 — January 31, 2021	0.4	\$181.50	0.4	\$2,958
February 1, 2021 — February 28, 2021	0.4	180.56	0.4	2,880
March 1, 2021 — March 31, 2021	0.5	184.68	0.5	2,785
Total	<u>1.3</u>		<u>1.3</u>	

- (1) This table does not include the value of equity awards surrendered to satisfy tax withholding obligations.

McKESSON CORPORATION

*Stock Price Performance Graph**: The following graph compares the cumulative total stockholder return on our common stock for the periods indicated with the Standard & Poor's 500 Index and the S&P 500 Health Care Index. The S&P 500 Health Care Index was selected as a comparator because it is generally available to investors and broadly used by other companies in the same industry.



	March 31,					
	2016	2017	2018	2019	2020	2021
McKesson Corporation	\$100.00	\$ 95.30	\$ 91.37	\$ 75.92	\$ 89.37	\$131.03
S&P 500 Index	\$100.00	\$117.17	\$133.57	\$146.25	\$136.05	\$212.71
S&P 500 Health Care Index	\$100.00	\$111.59	\$124.17	\$142.66	\$141.21	\$189.28

* Assumes \$100 invested in McKesson Common Stock and in each index on March 31, 2016 and that all dividends are reinvested.

Item 6. Reserved.

McKESSON CORPORATION
FINANCIAL REVIEW

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

GENERAL

Management’s discussion and analysis of financial condition and results of operations, referred to as the “Financial Review,” is intended to assist the reader in the understanding and assessment of significant changes and trends related to the results of operations and financial position of McKesson Corporation together with its subsidiaries (collectively, the “Company,” “McKesson,” “we,” “our,” or “us” and other similar pronouns). This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying financial notes in Item 8 of Part II of this Annual Report on Form 10-K.

Our fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references to a particular year shall mean our fiscal year.

Certain statements in this report constitute forward-looking statements. See Item 1 — Business — Forward-Looking Statements in Part I of this Annual Report on Form 10-K for additional factors relating to these statements and Item 1A — Risk Factors in Part I of this Annual Report on Form 10-K for a list of certain risk factors applicable to our business, financial condition, and results of operations.

Overview of Our Business:

We are a global leader in healthcare supply chain management solutions, retail pharmacy, community oncology and specialty care, and healthcare information solutions. We partner with life sciences companies, manufacturers, providers, pharmacies, governments, and other healthcare organizations to help provide the right medicines, medical products, and healthcare services to the right patients at the right time, safely, and cost-effectively.

We implemented a new segment reporting structure commencing with the second quarter of 2021, which resulted in four reportable segments: U.S. Pharmaceutical, International, Medical-Surgical Solutions, and Prescription Technology Solutions (“RxTS”). Other, for retrospective periods presented, consists of our equity method investment in Change Healthcare LLC (“Change Healthcare JV”), which was split-off from McKesson in the fourth quarter of 2020. All prior segment information has been recast to reflect our new segment structure and current period presentation. Our organizational structure also includes Corporate, which consists of income and expenses associated with administrative functions and projects, and the results of certain investments. The factors for determining the reportable segments include the manner in which management evaluates the performance of the Company combined with the nature of individual business activities. We evaluate the performance of our operating segments on a number of measures, including revenues and operating profit before interest expense and income taxes.

The following summarizes our four reportable segments and the changes made to our reporting structure commencing in the second quarter of 2021. Refer to Financial Note 22, “Segments of Business,” to the accompanying consolidated financial statements included in this Annual Report on Form 10-K for further information regarding our reportable segments.

- **U.S. Pharmaceutical**, previously the U.S. Pharmaceutical and Specialty Solutions reportable segment, continues to distribute branded, generic, specialty, biosimilar, and over-the-counter pharmaceutical drugs and other healthcare-related products. This segment also provides practice management, technology, clinical support, and business solutions to community-based oncology and other specialty practices. In addition, the segment sells financial, operational, and clinical solutions to pharmacies (retail, hospital, alternate site) and provides consulting, outsourcing, technological, and other services.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

- **International** is a new reportable segment that includes our operations in Europe and Canada, bringing together non-U.S.-based drug distribution services, specialty pharmacy, retail, and infusion care services. McKesson Europe was previously reflected as the European Pharmaceutical Solutions reportable segment and McKesson Canada was previously included in Other.
- **Medical-Surgical Solutions** provides medical-surgical supply distribution, logistics, and other services to healthcare providers in the United States (“U.S.”) and was unaffected by the segment realignment.
- **RxTS** is a new reportable segment that brings together existing businesses, including CoverMyMeds, RelayHealth, RxCrossroads, and McKesson Prescription Automation, including Multi-Client Central Fill as a Service, to serve our biopharma and life sciences partners and patients. RxCrossroads was previously included in our former U.S. Pharmaceutical and Specialty Solutions reportable segment and CoverMyMeds, RelayHealth, and McKesson Prescription Automation were previously included in Other.

Executive Summary:

The following summary provides highlights and key factors that impacted our business, operating results, financial condition, and liquidity for the year ended March 31, 2021.

- Coronavirus disease 2019 (“COVID-19”) impacted our results of operations for the year ended March 31, 2021. Following the declaration of COVID-19 as a global pandemic by the World Health Organization (“WHO”) on March 11, 2020, there was a temporary increase in demand for pharmaceuticals across our businesses. Subsequently, pharmaceutical distribution volumes decreased during the first quarter as a result of the weakened and uncertain global economic environment and COVID-19 restrictions, including government shutdowns and shelter-in-place orders. The recovery from the COVID-19 pandemic continued to fluctuate throughout our fiscal year. We benefited from demand for COVID-19 tests, favorable contributions from our vaccine and related ancillary supply kit distribution programs as discussed further below, and savings from reduced travel and meetings throughout 2021;
- We expanded our existing contractual relationship with the Centers for Disease Control and Prevention (“CDC”) through an amendment to our existing Vaccines for Children Program contract to support the U.S. government as a centralized distributor of COVID-19 vaccines and ancillary supplies needed to administer vaccines. We have also partnered with the Department of Health and Human Services (“HHS”) and Pfizer to manage the assembly and distribution of the ancillary supplies needed to administer COVID-19 vaccines;
- In December 2020, we began distributing certain COVID-19 vaccines under the direction of the CDC. Through the end of the fiscal year, we had distributed approximately 100 million of COVID-19 vaccine doses. For a more in-depth discussion of how COVID-19 impacted our business, operations, and outlook, refer to the COVID-19 section of “*Trends and Uncertainties*” included below;
- Revenues of \$238.2 billion, reflects a 3% increase from the prior year primarily in our U.S. Pharmaceutical segment driven by market growth;
- Gross profit increased 1% from the prior year primarily in our Medical-Surgical Solutions segment driven by sales of COVID-19 tests;
- Total operating expenses in 2021 includes the following:
 - a charge of \$8.1 billion related to our estimated liability for opioid-related claims as further described in the Opioid-Related Litigation and Claims section of “*Trends and Uncertainties*” included below; and

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

- charges of \$115 million to impair certain long-lived assets within our International segment; partially offset by
- a net gain of \$131 million recorded in connection with insurance proceeds received from the settlement of the shareholder derivative action related to our controlled substances monitoring program;
- Other income, net in 2021 includes net gains of \$133 million related to our equity investments;
- Diluted loss per common share from continuing operations attributable to McKesson Corporation in 2021 of \$28.26 reflects the aforementioned items, net of any respective tax impacts, and a lower share count compared to the prior year driven largely by the separation of our investment in Change Healthcare JV on March 10, 2020;
- On November 1, 2020, we completed the contribution of our German pharmaceutical wholesale business to a newly formed joint venture with Walgreens Boots Alliance (“WBA”) in which we have a 30% ownership interest;
- On December 3, 2020, we completed a public offering of 0.90% Notes due December 3, 2025 (the “2025 Notes”) in a principal amount of \$500 million and repaid \$1.0 billion of long-term debt in 2021. Refer to Financial Note 13, “Debt and Financing Activities,” to the accompanying consolidated financial statements included in this Annual Report on Form 10-K for more information;
- We returned \$1.0 billion of cash to shareholders through \$770 million of common stock repurchases, including the value of equity awards surrendered for tax withholding, and \$276 million of dividend payments during 2021. On July 29, 2020, we raised our quarterly dividend from \$0.41 to \$0.42 per common share; and
- In January 2021, our Board of Directors (the “Board”) approved an increase of \$2.0 billion for the authorized share repurchase of McKesson’s common stock.

Trends and Uncertainties:

COVID-19

In December 2019, a novel strain of coronavirus, which causes the infectious disease known as COVID-19, was reported in Wuhan, China. The WHO declared COVID-19 a “Public Health Emergency of International Concern” on January 30, 2020 and a global pandemic on March 11, 2020.

We continue to evaluate the nature and extent of the impacts COVID-19 has on our business and operations. The pandemic developed rapidly during our fourth quarter of 2020 and continued to evolve throughout 2021. Infection rates varied throughout our fiscal year, peaking in January 2021. A significant number of new COVID-19 cases continue to be reported, particularly in the U.S. These also include cases from new and emerging COVID-19 variants, which could have the potential to be more severe, spread more easily, require different treatments, or change the effectiveness of current vaccines. However, vaccines which have met the U.S. Food and Drug Administration’s (“FDA’s”) standards for safety, effectiveness, and manufacturing quality needed to support Emergency Use Authorization (“EUA”), are currently being administered across the country, as further discussed below. As of March 31, 2021, nearly 154 million doses of COVID-19 vaccines have been administered in the U.S. according to the CDC. The full extent to which COVID-19 will impact us depends on many factors and future developments, which are described at the end of this COVID-19 section.

In response to the COVID-19 pandemic, federal, state, and local government directives and policies have been put in place in the U.S. to enhance availability of medications and supplies to meet the increased demand,

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

assist front-line healthcare providers, manage public health concerns by creating social distancing, and address the economic impacts, including sharply reduced business activity, increased unemployment, and overall uncertainty presented by this healthcare emergency. Similar governmental actions have occurred in Canada and Europe, the timing of which has varied across geographies. In December 2020, the FDA issued an EUA for the Pfizer-BioNTech COVID-19 vaccine manufactured by Pfizer, Inc. (“Pfizer Vaccine”) and the Moderna COVID-19 vaccine manufactured by ModernaTX, Inc. (“Moderna Vaccine”) to be distributed in the U.S. These authorizations were followed by an EUA for the Janssen COVID-19 vaccine manufactured by Janssen Biotech Inc., a Janssen pharmaceutical company of Johnson & Johnson, (“Janssen Vaccine”) in February 2021. Government-coordinated administrative or allocation decisions at the federal, state, and local levels may cause variability in the timing and volume of COVID-19 vaccine distribution and administration activities. Our role in the distribution of COVID-19 vaccines in the U.S. as well as the assembly and distribution of related ancillary supply kits is discussed further below. Similar COVID-19 vaccine authorizations have occurred in Canada and Europe. McKesson Canada’s corporately owned retail pharmacy chain, Rexall, as well as independent pharmacy banners are supporting Canada’s vaccination efforts. McKesson Europe is also playing a role in helping support governments and public health entities in not only distributing COVID-19 vaccines across several European countries, but administering them in pharmacies as well.

As a global leader in healthcare supply chain management solutions, retail pharmacy, community oncology and specialty care, and healthcare information solutions, we are well positioned to respond to the COVID-19 pandemic in the U.S., Canada, and Europe. We have worked and continue to work closely with national and local governments, agencies, and industry partners to ensure that available supplies, including personal protective equipment (“PPE”), and medicine reach our customers and patients.

Our Response to COVID-19 in the Workplace

During this unprecedented time, we are committed in continuing to supply our customers and protect the safety of our employees. The various responses we put in place to mitigate the impact of COVID-19 on our business operations, including telecommuting and work-from-home policies, restricted travel, employee support programs, and enhanced safety measures, are intended to limit employee exposure to the virus that causes COVID-19. We expanded employee medical benefits covering COVID-19 related visits, treatments, and testing as well as expanded telehealth options to protect employee safety. We provided further support including additional emergency leave and an internal paid time off donation platform for employees impacted by COVID-19. For employees whose roles require presence at our facilities, we enhanced safety by promoting the practice of social distancing, providing reminders to wash or disinfect hands and avoid unnecessary face touching, making face masks available, placing hand sanitizers within our operating environments, and periodically cleaning and disinfecting our facilities. For employees whose roles do not require presence at our facilities, we added technology resources to support their working remotely. These responses were initially put in place during our fourth quarter of 2020. During the second quarter of 2021, we also implemented on-site workplace temperature screening as we continue to adapt our health and safety practices in response to the COVID-19 pandemic. When working in frozen vaccine storage environments, employees are provided with protective gear, including special clothing, gloves, and facial gear. These steps to protect employee safety have resulted in limited disruption from COVID-19 to our normal business operations, productivity trends, and have not materially impacted our operating expenses or operating margins.

We have evaluated the impact of our telecommuting and work-from-home policies on our system of internal controls and we have concluded that these policies did not have a material effect on our internal control over financial reporting during the year ended March 31, 2021. We also took various actions to mitigate the impact of COVID-19 on our results from operations through cost-containment and payroll-related expenses.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Trends in our Business

At the onset of the COVID-19 pandemic late in our fourth quarter of 2020, we experienced higher pharmaceutical distribution volumes and increased retail pharmacy foot traffic as our customers increased supplies on hand in March, which drove unfavorability in our results of operations when comparing 2021 versus 2020.

During the first quarter of 2021, we experienced growth in pharmaceutical distribution and specialty drug volumes at a lower rate in the U.S., while pharmaceutical distribution volumes decreased in Europe and Canada due to the COVID-19 pandemic, as compared to the same prior year period. Specialty drug volumes increased, but were negatively impacted by lower demand for elective specialty drugs, as compared to the same prior year period. We also experienced decreased demand for primary care medical-surgical supplies due to deferrals in elective procedures in hospitals and surgery centers as well as decreased traffic and closures of doctors' offices, which was partially offset by demand for PPE and COVID-19 tests. Additionally, the decreased traffic in doctors' offices and general shelter-in-place guidance by governmental authorities negatively impacted retail pharmacy foot traffic in both Europe and Canada.

While we experienced improvements in prescription volumes and primary care patient visits during our second quarter of 2021, the impact and recovery of COVID-19 for the second half of our fiscal year was non-linear and tracked with patient mobility. We also saw increased demand for COVID-19 tests and continued sales of PPE throughout the year in our Medical-Surgical Solutions segment partially offset by the impacts of social distancing measures which resulted in a less severe cough, cold, and flu season, savings for reduced travel and meetings across the enterprise, as well as improvements of retail pharmacy foot traffic in Europe and Canada. The vaccine and related ancillary kit distribution in the U.S. favorably impacted our results in the second half of fiscal 2021 as further discussed below.

Our Role in the Distribution of COVID-19 Vaccines and Ancillary Supply Kits

On August 14, 2020, we expanded our contractual relationship with the CDC through an amendment to our existing Vaccines for Children Program contract for the distribution of certain COVID-19 vaccines. The COVID-19 vaccine distribution agreement with the CDC was finalized during the third quarter of 2021. We support the U.S. government as a centralized distributor of COVID-19 vaccines and ancillary supplies needed to administer vaccines. In the centralized model, the U.S. government directs us on the distribution of the vaccines and related supplies to point-of-care sites across the country. We make no decisions on where products are to be distributed nor how the products are allocated between the various provider sites and ultimately administered to the individuals receiving a vaccine. We utilize our expertise and capabilities to support the CDC's efforts to vaccinate everyone in the U.S. who wants to receive a COVID-19 vaccine. The CDC and McKesson collaborated similarly in response to the 2009 H1N1 pandemic.

In December 2020, we began distributing the Moderna Vaccine in the U.S. and in March 2021, we began distributing the Janssen Vaccine. We may distribute other future authorized COVID-19 vaccines that are refrigerated or frozen. Ancillary supply kits may be shipped either together with the Moderna Vaccine and Janssen Vaccine or in advance of the vaccines. The results of operations related to our vaccine distribution are reflected in our U.S. Pharmaceutical segment. The Pfizer Vaccine, which is ultra-frozen, is not being distributed by McKesson, although we are providing ancillary supplies needed for its administration.

On September 23, 2020, we announced our contract with the HHS under which our Medical-Surgical Solutions segment manages the assembly and distribution of ancillary supply kits needed to administer COVID-19 vaccines, including sourcing some of those supplies. We also have an agreement with Pfizer to

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

assemble and distribute ancillary supply kits needed to administer that particular COVID-19 vaccine. Ancillary supply kits include alcohol prep pads, face shields, surgical masks, needles and syringes, and other vaccine administration items. For the Pfizer Vaccine, ancillary supply kits also include the diluent needed to administer the ultra-frozen vaccine. We began assembling the ancillary supply kits in September 2020 in preparation for vaccine authorization and subsequent distribution. Ancillary supply kits to administer the Pfizer Vaccine are shipped directly to point-of-care sites, and all other ancillary supply kits are shipped to our dedicated vaccine distribution centers. The results of operations for the kitting and distribution of ancillary supplies are reflected in our Medical-Surgical Solutions segment. The future financial impact of the arrangements with the CDC and HHS depend on numerous uncertainties, which are described at the end of this COVID-19 section.

To manage the COVID-19 vaccine and ancillary supply kit distribution, we have set up special, dedicated vaccine distribution centers that include large-scale, custom freezers and refrigerators to safely store and process millions of vaccine doses. These facilities can scale to meet the demand of increasing volumes of vaccines being manufactured. We have also set up distribution centers for kitting and inventory management as part of our contract with the HHS. We are working with delivery partners to manage the delivery of vaccines and ancillary supply kits from our centralized vaccine distribution centers to point-of-care destinations as directed by the CDC. The capital expenditures we made during 2021 to prepare for vaccine and ancillary supply kit distribution were not material to our financial condition or liquidity.

Impact to our Results of Operations, Financial Condition, and Liquidity

For the year ended March 31, 2021, the demand for COVID-19 tests, the year over year impact from PPE and other related products, net of inventory charges, as well as the kitting and distribution of ancillary supplies for COVID-19 vaccines in our Medical-Surgical Solutions segment contributed approximately 20% in segment revenues and segment operating profit. Additionally, the distribution of COVID-19 vaccines in our U.S. Pharmaceutical segment contributed approximately 2% in segment operating profit for the year ended March 31, 2021. During our fourth quarter of 2020, we experienced a temporary increase in demand for pharmaceuticals. Subsequently, during the first quarter, we had lower pharmaceutical volumes, specialty drug volumes, and patient care visits that negatively impacted our consolidated revenues and income (loss) from continuing operations before income taxes for the year ended March 31, 2021. During the year ended March 31, 2021, selling, distribution, general, and administrative expenses decreased as a result of the pandemic, largely due to savings from restricted travel and decreased meetings. The favorable reduction in selling, distribution, general, and administrative expenses was partially offset by increased costs of transport, costs for enhanced procedures to sanitize operating facilities, and costs of providing PPE and other related products for employee use. Additionally, increased costs for certain PPE compressed our margins. Certain PPE items held for resale were valued in our inventory at costs that were inflated by earlier COVID-19 pandemic demand levels. That inventory valuation, if not supported by market resale prices, may be written down to net realizable value. We may also write-off inventory due to decreased customer demand and excess inventory. During the year ended March 31, 2021, we recorded charges totaling \$136 million in cost of sales on certain PPE and other related products due to inventory impairments and excess inventory in our Medical-Surgical Solutions segment. Although market price volatility and changes to anticipated customer demand may require additional write-downs in future periods, we are taking measures to mitigate such risk. Overall, these COVID-19 related items had a net favorable impact on consolidated income (loss) from continuing operations before income taxes for the year ended March 31, 2021 compared to the prior year. Impacts to future periods due to COVID-19 may differ based on future developments, which is described at the end of this COVID-19 section.

We were able to maintain appropriate labor and overall vendor supply levels during the year ended March 31, 2021. Our inventory levels have fluctuated in response to supply availability and customer demand

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

patterns for certain products, with varying inventory level impacts depending on the specific product within our portfolio. We collaborated closely with the federal government and other healthcare stakeholders to source more critical PPE to the U.S. This collaboration expedited the shipment of critical medical supplies to areas hit hardest by COVID-19, as identified by the Federal Emergency Management Agency. As our supply levels improve, and the federal government evolves guidance on the prioritization of providers or geographic markets, we will continue to adapt our distribution policies.

On March 27, 2020, the U.S. government enacted the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) to address the economic impact of the COVID-19 pandemic. Among other things, the CARES Act provides certain changes to tax laws and includes provisions to provide relief for citizens, companies, healthcare providers and patients, and others. We have deferred certain employer payroll taxes and continue to monitor the potential impact of other tax legislation changes as result of the CARES Act, including refundable payroll tax credits on certain qualified wages. We anticipate changes due to the CARES Act in the timing of certain cash flows, with no material impact to our financial results for the year ended March 31, 2021. On December 27, 2020, the U.S. government enacted the Consolidated Appropriations Act, 2021 (the “CA Act”), which enhances and expands certain provisions of the CARES Act. The CA Act did not have a material impact on our financial condition, results of operations, or liquidity for the year ended March 31, 2021 nor do we currently expect a material impact on our future financial results.

Our consolidated balance sheets and ability to maintain financial liquidity remains strong. We have experienced no material impacts to our liquidity or net working capital due to the COVID-19 pandemic. We are monitoring our customers closely for changes to their timing of payments or ability to pay amounts owed to us as a result of COVID-19 pandemic impacts to their businesses. We remain well-capitalized with access to liquidity from our revolving credit facility. Long-term debt markets and commercial paper markets, our primary sources of capital after cash flow from operations, have remained open and accessible to us during the COVID-19 pandemic. At March 31, 2021, we were in compliance with all debt covenants, and believe we have the ability to continue to meet our debt covenants in the future.

Impact to our Supply Chain

We also continue to monitor the COVID-19 pandemic impacts on our supply chain. Although the availability of various products is dependent on our suppliers, their locations, and the extent to which they are impacted by the COVID-19 pandemic, we are proactively working with manufacturers, industry partners, and government agencies to meet the needs of our customers during the pandemic. We have assembled a Critical Care Drug Task Force, made up of our procurement specialists, clinical health systems pharmacists, and supply chain professionals, that is focused on securing additional product where available, sourcing back-up products, and protecting our operations across all locations and facilities. We are also working with manufacturers through several channels, including our ClarusONE Sourcing Services LLP (“ClarusONE”) and global sourcing teams in London, and our leaders are actively engaged in addressing potential shortages. We have engaged with industry partners and government agencies to gain visibility into supply and demand. Additionally, we have a robust Business Continuity and Disaster Recovery Program (“BCRP”) and we have proactively enhanced our BCRP in response to the COVID-19 pandemic to protect the supply chain to minimize disruption in healthcare, protect our customers, ensure the safety and security of our employees and workplaces, and ensure the continuity of critical business processes.

The situation remains fluid and we are taking a proactive approach to protect inventory during this crisis and ensure our provider partners have needed supplies and medications to help prevent the spread of the disease and treat those that are ill. COVID-19 has put an unprecedented strain on the supply of high-demand PPE, including

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

N95 masks, gloves, as well as disinfecting sprays and wipes. The supply chain has improved over the initial impact of pandemic-related demand, and we continue to closely monitor demand by customer type and certain PPE and infection prevention items are still in short supply. Our allocation approach has helped us avoid stock outs in many critical product categories, allowing us to provide PPE supplies to many more customers for a much longer time. We anticipate these market conditions will remain for the foreseeable future. Our efforts to help the supply chain have included sourcing products from new suppliers all over the world, working closely with the federal government to help with the nation's response and collaborating with partners to source, develop, and deliver new products to market.

Risks and Forward-Looking Information

The COVID-19 pandemic has disrupted the global economy and exacerbated uncertainties inherent in estimates, judgments, and assumptions used in our forecasts. We face numerous uncertainties in estimating the direct and indirect effects of COVID-19 on our future business operations, financial condition, results of operations, and liquidity. The full extent to which COVID-19 will impact us depends on many factors and future developments, including: the duration and spread of the virus; governmental actions to limit the spread of the virus; potential seasonality of viral outbreaks; potential new strains or variants of the original virus; the amount of COVID-19 vaccines authorized, manufactured, distributed, and administered; the amount of ancillary supply kits assembled and distributed; the effectiveness of COVID-19 vaccines and governmental measures in controlling the spread of the virus; and the effectiveness of treatments of infected individuals. Due to several rapidly changing variables related to the COVID-19 pandemic, estimations of future economic trends and the timing of when stability will return remains challenging. Additionally, we periodically review our intangible and other long-lived assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Key assumptions and estimates about future values in our impairment assessments can be affected by a variety of factors, including the impacts of the global pandemic on industry and economic trends as well as on our business strategy and internal forecasts. Material changes to key assumptions and estimates can decrease the projected cash flows or increase the discount rates and have resulted in impairment charges of certain long-lived assets as disclosed in Financial Note 4, "Restructuring, Impairment, and Related Charges," to the accompanying consolidated financial statements included in this Annual Report on Form 10-K, and could potentially result in future impairment charges. Refer to Item 1A — Risk Factors in Part I of this Annual Report on Form 10-K for a disclosure of risk factors related to COVID-19.

Opioid-Related Litigation and Claims

We are a defendant in approximately 3,200 legal proceedings asserting claims related to the distribution of controlled substances (opioids) in federal and state courts throughout the U.S., and in Puerto Rico and Canada. Those proceedings include approximately 2,900 federal cases and approximately 300 state court cases throughout the U.S., and cases in Puerto Rico and Canada. We continue to be involved in discussions with the objective of achieving broad resolution of opioid-related claims of states, their political subdivisions and other government entities ("governmental entities"). We are in ongoing, advanced discussions with state attorneys general and plaintiffs' representatives regarding a framework under which, in order to resolve the claims of governmental entities, the three largest U.S. pharmaceutical distributors would pay up to approximately \$21.0 billion over a period of 18 years, with up to approximately \$8.0 billion to be paid by us, of which more than 90% is anticipated to be used to remediate the opioids crisis. Most of the remaining amount relates to plaintiffs' attorneys fees and costs, and would be payable over a shorter time period. In addition, the proposed framework would require the three distributors, including the Company, to adopt changes to anti-diversion programs.

We have concluded that discussions under that framework have reached a stage at which a broad settlement of opioid claims by governmental entities is probable, and the loss related thereto can be reasonably estimated as

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

of March 31, 2021. As a result of that conclusion, and our assessment of certain other opioid-related claims, we recorded a charge of \$8.1 billion for the year ended March 31, 2021 within “Claims and litigation charges, net” in our Consolidated Statement of Operations, related to our share of the settlement framework described above, as well as other opioid-related claims. Because of the many uncertainties associated with any potential settlement arrangement or other resolution of opioid-related litigation, including the uncertainty of the scope of participation by plaintiffs in any potential settlement, we are not able to reasonably estimate the upper or lower ends of the range of ultimate possible loss for all opioid-related litigation matters. In light of the uncertainty of the timing of amounts that would be paid with respect to the charge, the charge was recorded in “Long-term litigation liabilities” in our Consolidated Balance Sheet as of March 31, 2021. Moreover, in light of this uncertainty, the amount of any ultimate loss may differ materially from the amount accrued.

While we continue to be involved in discussions regarding a potential broad settlement framework, we also continue to prepare for trial in these pending matters. We believe that we have valid defenses to the claims pending against us and, absent an acceptable settlement, intend to vigorously defend against all such claims. An adverse judgment or negotiated resolution in any of these matters could have a material adverse impact on our financial position, cash flows or liquidity, or results of operations. Refer to Financial Note 19, “Commitments and Contingent Liabilities,” to the accompanying consolidated financial statements included in this Annual Report on Form 10-K for more information.

State Opioid Statutes

Legislative, regulatory, or industry measures to address the misuse of prescription opioid medications could affect our business in ways that we may not be able to predict. In April 2018, the State of New York adopted the Opioid Stewardship Act (“OSA”) which required the imposition of an annual surcharge on all manufacturers and distributors licensed to sell or distribute opioids in New York. On December 19, 2018, the U.S. District Court for the Southern District of New York found the law unconstitutional and issued an injunction preventing the State of New York from enforcing the law. The State of New York appealed to the U.S. Court of Appeals for the Second Circuit. The State of New York has subsequently adopted an excise tax on sales of opioids in the State, which became effective July 1, 2019. The law adopting the excise tax made clear that the OSA would apply only to opioid sales on or before December 31, 2018. The excise tax applies only to the first sale occurring in New York, and thus may not apply to sales from our distribution centers in New York to New York customers.

On September 14, 2020, a panel of the U.S. Court of Appeals for the Second Circuit reversed the district court’s decision on procedural grounds. The Healthcare Distribution Alliance filed a petition for panel rehearing, or, in the alternative, for rehearing *en banc* with the U.S. Court of Appeals for the Second Circuit; that petition was denied on December 18, 2020. On February 12, 2021, the U.S. Court of Appeals for the Second Circuit granted a motion by the Healthcare Distribution Alliance to stay its mandate pending the filing and disposition of a petition for writ of certiorari before the U.S. Supreme Court. The due date for filing such a petition is May 17, 2021. Unless the appellate court’s decision is overturned, the OSA will be reinstated for calendar years 2017 and 2018 (but not beyond those years), and, subject to any further legal challenge, we will have to pay our ratable share of the annual surcharge for those two years. During the second quarter of 2021, we reflected an estimated liability of \$50 million for the OSA surcharge in our accompanying consolidated financial statements on the assumption that the appellate court’s decision will stand. Refer to Note 19, “Commitments and Contingent Liabilities,” to the accompanying consolidated financial statements included in this Annual Report on Form 10-K for more information.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

RESULTS OF OPERATIONS

Overview of Consolidated Results:

<i>(In millions, except per share data)</i>	Years Ended March 31,			Change	
	2021	2020	2019	2021	2020
Revenues	\$238,228	\$231,051	\$214,319	3%	8%
Gross profit	12,148	12,023	11,754	1	2
Gross profit margin	5.10%	5.20%	5.48%	(10)bp	(28)bp
Total operating expenses	\$ (17,188)	\$ (9,534)	\$ (10,868)	80%	(12)%
Total operating expenses as a percentage of revenues	7.21%	4.13%	5.07%	308bp	(94)bp
Other income, net	\$ 223	\$ 12	\$ 182	NM	(93)%
Equity earnings and charges from investment in Change Healthcare Joint Venture	—	(1,108)	(194)	(100)	471
Interest expense	(217)	(249)	(264)	(13)	(6)
Income (loss) from continuing operations before income taxes	(5,034)	1,144	610	(540)	88
Income tax benefit (expense)	695	(18)	(356)	NM	(95)
Income (loss) from continuing operations	(4,339)	1,126	254	(485)	343
Income (loss) from discontinued operations, net of tax	(1)	(6)	1	(83)	(700)
Net income (loss)	(4,340)	1,120	255	(488)	339
Net income attributable to noncontrolling interests	(199)	(220)	(221)	(10)	—
Net income (loss) attributable to McKesson Corporation	\$ (4,539)	\$ 900	\$ 34	(604)%	NM
Diluted earnings (loss) per common share attributable to McKesson Corporation					
Continuing operations	\$ (28.26)	\$ 4.99	\$ 0.17	(666)%	NM
Discontinued operations	—	(0.04)	—	(100)	NM
Total	\$ (28.26)	\$ 4.95	\$ 0.17	(671)%	NM
Weighted-average diluted common shares outstanding	160.6	181.6	197.3	(12)%	(8)%

bp — basis points

NM — computation not meaningful

Revenues

Revenues increased for the years ended March 31, 2021 and 2020 compared to the respective prior years primarily due to market growth, including expanded business with existing customers, within our U.S. Pharmaceutical segment. Market growth includes growing drug utilization, price increases, and newly launched products, partially offset by price deflation associated with branded to generic drug conversion.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Gross Profit

Gross profit increased for the year ended March 31, 2021 compared to the prior year primarily in our Medical-Surgical Solutions segment driven by the demand for COVID-19 tests and the contribution from kitting and distribution of ancillary supplies for COVID-19 vaccines, partially offset by the unfavorable impact from PPE and other related products largely due to inventory charges. Gross profit was favorably impacted by growth of specialty pharmaceuticals and the contribution from our vaccine distribution programs in our U.S. Pharmaceutical segment. Gross profit was unfavorably impacted by the adverse impacts from COVID-19 largely during the first quarter of 2021, including disruptions of doctors' office operations, deferred or cancelled elective procedures, lower demand for pharmaceuticals, and overall reduction of foot traffic in pharmacies.

Gross profit increased for the year ended March 31, 2020 compared to the prior year primarily due to market growth in our Medical-Surgical Solutions segment, partially offset by unfavorable effects of foreign currency exchange fluctuations. Gross profit and gross profit margin for the year ended March 31, 2020 compared to the prior year were unfavorably impacted by lower gains from antitrust legal settlements, partially offset by higher last-in, first-out ("LIFO") credits in 2020. The impact from COVID-19 increased gross profit by less than 1% and decreased gross profit margin by less than 10 basis points for the year ended March 31, 2020.

Gross profit for the years ended March 31, 2021, 2020, and 2019 included LIFO inventory credits of \$38 million, \$252 million, and \$210 million, respectively. The lower LIFO credits in 2021 compared to 2020 is primarily due to higher brand inflation and delays of branded off-patent to generic drug launches. The higher LIFO credits in 2020 compared to 2019 is primarily driven by higher generic deflation. Refer to the "*Critical Accounting Policies and Estimates*" section included in this Financial Review for further information. Gross profit for the years ended March 31, 2021, 2020, and 2019 also included net cash proceeds received of \$181 million, \$22 million, and \$202 million, respectively, representing our share of antitrust legal settlements.

Total Operating Expenses

A summary and description of the components of our total operating expenses for the years ended March 31, 2021, 2020, and 2019 is as follows:

- Selling, distribution, general, and administrative expenses ("SDG&A"): SDG&A consists of personnel costs, transportation costs, depreciation and amortization, lease costs, professional fee expenses, and administrative expenses.
- Claims and litigation charges, net: These charges include adjustments for estimated probable settlements related to our controlled substance monitoring and reporting, and opioid-related claims, as well as any applicable income items or credit adjustments due to subsequent changes in estimates. Legal fees to defend claims, which are expensed as incurred, are included within SDG&A. We have reclassified prior period amounts to conform to the current period presentation.
- Goodwill impairments charges: We perform an impairment test on goodwill balances annually in the third quarter and more frequently if indicators for potential impairment exist. The resulting goodwill impairment charges are reflected within this line item.
- Restructuring, impairment, and related charges: Restructuring charges that are incurred for programs in which we change our operations, the scope of a business undertaken by our business units, or the manner in which that business is conducted as well as long-lived asset impairments.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

(Dollars in millions)	Years Ended March 31,			Change	
	2021	2020	2019	2021	2020
Selling, distribution, general, and administrative expenses	\$ 8,849	\$9,182	\$ 8,437	(4)%	9%
Claims and litigation charges, net	7,936	82	37	NM	122
Goodwill impairment charges	69	2	1,797	NM	(100)
Restructuring, impairment, and related charges, net	334	268	597	25	(55)
Total operating expenses	\$17,188	\$9,534	\$10,868	80%	(12)%
Percent of revenues	7.21%	4.13%	5.07%	308bp	(94)bp

bp — basis points

NM — computation not meaningful

Total operating expenses and total operating expenses as a percentage of revenues increased for the year ended March 31, 2021 compared to the prior year, and decreased for the year ended March 31, 2020 compared to the prior year. Total operating expenses for the years ended March 31, 2021, 2020, and 2019 were affected by the following significant items:

2021

- SDG&A includes opioid-related costs of \$153 million, primarily related to litigation expenses;
- SDG&A reflects cost savings of \$95 million on travel and entertainment due to travel and meeting restrictions associated with COVID-19;
- SDG&A reflects charges of \$58 million to remeasure assets and liabilities held for sale to fair value less costs to sell related to the completed contribution of the majority of our German pharmaceutical wholesale business to create a joint venture with WBA in which we have a 30% ownership interest within our International segment. Refer to Financial Note 3, “Held for Sale,” to the accompanying consolidated financial statements included in this Annual Report on Form 10-K for more information;
- SDG&A includes a charge of \$50 million related to our estimated liability under the OSA as previously discussed in the “*Trends and Uncertainties*” section;
- SDG&A also includes lower operating expenses due to the contribution of our German pharmaceutical wholesale business to a joint venture with WBA and a divestiture in our Medical-Surgical Solutions segment that closed in 2020;
- Claims and litigation charges, net includes a charge of \$8.1 billion related to our estimated liability for opioid-related claims as previously discussed in the “*Trends and Uncertainties*” section;
- Claims and litigation charges, net includes a net gain of \$131 million reflecting insurance proceeds received, net of attorneys’ fees and expenses awarded to plaintiffs’ counsel, in connection with the previously reported \$175 million settlement of the shareholder derivative action related to our controlled substances monitoring program;
- Goodwill impairment charges of \$69 million were recorded in connection with our segment realignment that commenced in the second quarter of 2021. Refer to the “*Goodwill Impairment*” section below for further details;

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

- Restructuring, impairment, and related charges, net includes long-lived asset impairment charges of \$115 million primarily related to our retail pharmacy businesses in Canada and Europe within our International segment, and the remaining \$219 million primarily represents costs associated with our operating model and cost optimization efforts in our corporate headquarters and International segment; and
- Total operating expenses were unfavorably impacted by foreign currency exchange fluctuations.

2020

- SDG&A includes charges of \$275 million to remeasure assets and liabilities held for sale to fair value less costs to sell related to the completed contribution of the majority of our German pharmaceutical wholesale business to create a joint venture with WBA;
- SDG&A includes opioid-related costs of \$150 million, primarily related to litigation expenses;
- Claims and litigation charges, net includes a settlement charge of \$82 million recorded in connection with an agreement to settle all opioid-related claims filed by two Ohio counties;
- Restructuring, impairment, and related charges, net includes long-lived asset impairment charges of \$112 million, primarily for our United Kingdom (“U.K.”) business (mainly pharmacy licenses) and Rexall Health retail business (“Rexall Health”) (mainly customer relationships) within our International segment, and the remaining \$156 million primarily represents employee severance and exit-related costs related to our 2019 restructuring initiatives, as further discussed below; and
- Total operating expenses includes higher SDG&A due to our business acquisitions and to support business growth, as well as our technology initiatives, partially offset by favorable effects of foreign currency exchange fluctuations.

2019

- SDG&A includes opioid-related costs of \$114 million, primarily related to litigation expenses, and increased expenses due to our business acquisitions and to support growth, partially offset by a gain from an escrow settlement of \$97 million representing certain indemnity and other claims related to our 2017 acquisition of Rexall Health and a credit of \$90 million for the derecognition of a liability related to the tax receivable agreement (“TRA”) payable to the shareholders of Change Healthcare, Inc. (“Change”);
- Goodwill impairment charges of \$1.8 billion in our European Retail Pharmacy (“European RP”) and European Pharmaceutical Distribution (“European PD”) reporting units within the International segment. Of these impairment charges, \$238 million was recognized upon the 2019 first quarter segment changes, which resulted in two new reporting units. The remaining charges primarily were due to declines in the reporting units’ estimated future cash flows and the selection of higher discount rates. These impairment charges generally were not deductible for income tax purposes. The declines in estimated future cash flows primarily were attributed to additional government reimbursement reductions and competitive pressures within the U.K. The risk of successfully achieving certain business initiatives was the primary factor in the use of a higher discount rate. At March 31, 2019, both the European RP and European PD reporting units had no remaining goodwill balances; and
- Restructuring, impairment, and related charges, net primarily includes employee severance and exit-related costs of \$352 million for our 2019 restructuring initiatives, as further discussed below and long-lived asset impairment charges of \$245 million primarily for our U.K. business (mainly pharmacy

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

licenses) within our International segment driven by additional government reimbursement reductions and competitive pressures in the U.K.

Goodwill Impairments

As discussed in the “*Overview of Our Business*” section, our operating structure was realigned commencing in the second quarter of 2021 into four reportable segments: U.S. Pharmaceutical, International, Medical-Surgical Solutions, and RxTS. These reportable segments encompass all operating segments of the Company. The second quarter segment realignment resulted in changes in multiple reporting units across the Company. As a result, we were required to perform a goodwill impairment test for these reporting units and recorded a goodwill impairment charge in our European RP reporting unit of \$69 million during the second quarter of 2021. At March 31, 2021, the balance of goodwill for our reporting units in Europe was approximately nil and the remaining balance of goodwill in the International segment primarily relates to one of our reporting units in Canada.

We evaluate goodwill for impairment on an annual basis as of October 1, and at an interim date, if indicators of potential impairment exist. The annual impairment testing performed in 2021 did not indicate any impairment of goodwill. As of the testing date, other risks, expenses, and future developments, such as additional government actions, increased regulatory uncertainty, and material changes in key market assumptions limit our ability to estimate projected cash flows, which could adversely affect the fair value of various reporting units in future periods, including our McKesson Canada reporting unit within our International segment and our RxCrossroads reporting unit within our RxTS segment, where the risk of a material goodwill impairment is higher than other reporting units. Refer to “*Critical Accounting Policies and Estimates*” included in this Financial Review for further information.

On October 1, 2019, we voluntarily changed our annual goodwill impairment testing date from January 1 to October 1 to better align with the timing of our annual long-term planning process. This change was not material to our consolidated financial statements as it did not delay, accelerate, or avoid any potential goodwill impairment charge. Refer to Note 12, “Goodwill and Intangible Assets, Net,” to the accompanying consolidated financial statements included in this Annual Report on Form 10-K for further information.

Restructuring Initiatives and Long-Lived Asset Impairments

During the first quarter of 2022, we approved an initiative to increase operational efficiencies and flexibility by transitioning to a partial remote work model for certain employees. This initiative primarily led us to rationalize our office space in North America. Where we determine to cease using office space, we plan to exit the portion of the facility no longer used. We also may retain and repurpose certain other office locations. We expect to incur total charges of approximately \$180 million to \$280 million for this initiative, consisting primarily of exit related costs, accelerated depreciation and amortization of long-lived assets, and asset impairments. This initiative is expected to be completed in 2022.

During the first quarter of 2021, we committed to an initiative within the U.K., which is included in our International segment, to further drive transformational changes in technologies and business processes, operational efficiencies, and cost savings. The initiative includes reducing the number of retail pharmacy stores, decommissioning obsolete technologies and processes, reorganizing and consolidating certain business operations, and related headcount reductions. We expect to incur total charges of approximately \$85 million to \$90 million, of which \$57 million of charges were recorded to date. The initiative is expected to be substantially complete in 2022 and estimated remaining charges primarily consist of accelerated amortization of long-lived assets, facility and other exit costs, and employee-related costs.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

In the fourth quarter of 2019, we committed to certain programs to continue our operating model and cost optimization efforts. We continue to implement centralization of certain functions and outsourcing through an expanded arrangement with a third-party vendor to achieve operational efficiency. The programs also include reorganization and consolidation of business operations, related headcount reductions, the further closures of retail pharmacy stores in Europe, and closures of other facilities. Total charges of \$297 million were recorded to date. This initiative was substantially complete in 2021 and remaining costs we expect to record under this initiative are not material.

We also committed to certain actions in connection with the previously announced relocation of our corporate headquarters from San Francisco, California to Irving, Texas, which became effective April 1, 2019. Total charges of \$105 million were recorded to date. The relocation was substantially complete in January 2021 and remaining costs we expect to record under this initiative, primarily relating to lease costs, are not material.

In the second quarter of 2018, we committed to a restructuring plan, which primarily consisted of the closures of underperforming retail pharmacy stores in the U.K., and a reduction in workforce. The plan was substantially complete in 2020.

On April 25, 2018, we announced a strategic growth initiative intended to drive long-term incremental profit growth and to increase operational efficiency. The initiative consisted of multiple growth priorities and plans to optimize our operating models and cost structures primarily through centralization, cost management, and outsourcing of certain administrative functions. As part of the growth initiative, we committed to implement certain actions including a reduction in workforce, facility consolidation, and store closures. This set of initiatives was substantially complete by the end of 2020.

Restructuring, impairment, and related charges for the years ended March 31, 2021, 2020, and 2019 also includes long-lived asset impairment charges of \$115 million, \$112 million, and \$245 million, respectively, primarily related to our retail pharmacy businesses in Canada and Europe within our International segment. In addition, certain charges related to restructuring initiatives are included under the caption “Cost of sales” in our Consolidated Statements of Operations and were not material for the years ended March 31, 2021, 2020, and 2019.

Refer to Financial Note 4, “Restructuring, Impairment, and Related Charges,” to the accompanying consolidated financial statements included in this Annual Report on Form 10-K for more information.

Other Income, Net

Other income, net for the year ended March 31, 2021 increased compared to the prior year primarily due to net gains recognized from our equity investments of \$133 million. This primarily reflects mark-to-market gains on our investments in certain U.S. growth stage companies in the healthcare industry and realized gains on the exit of some of these investments as further described in Financial Note 17, “Fair Value Measurements,” to the accompanying consolidated financial statements included in this Annual Report on Form 10-K. In future periods, fair value adjustments recognized in our operating results for these types of investments may be adversely impacted by market volatility. Other income, net also increased year over year due to pension settlement charges of \$122 million recognized in 2020 related to our previously approved termination of the frozen U.S. defined benefit pension plan. In connection with the pension plan termination, we purchased annuity contracts from an insurer that will pay and administer the future pension benefits of the remaining participants.

Other income, net, for the year ended March 31, 2020 decreased compared to the prior year primarily due to the 2020 pension settlement charges described above and higher gains recognized from the sale of investments in 2019, partially offset by higher net settlement gains in 2020 from our derivative contracts.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Equity Earnings and Charges from Investment in Change Healthcare Joint Venture

Until the separation of our investment in Change Healthcare JV on March 10, 2020, we accounted for this investment using the equity method of accounting. Excluding the impairment and transaction-related items described below, our proportionate share of loss from our investment in Change Healthcare JV for the years ended March 31, 2020 and 2019 was \$119 million and \$194 million, respectively, which primarily includes transaction and integration expenses incurred by the joint venture and basis differences between the joint venture and McKesson including amortization of fair value adjustments. During the first quarter of 2020 and for the year ended March 31, 2019, we owned approximately 70% of this joint venture.

On June 27, 2019, common stock and certain other securities of Change began trading on the NASDAQ (“IPO”). On July 1, 2019, upon the completion of its IPO, Change contributed net cash proceeds it received from its offering of common stock to Change Healthcare JV in exchange for additional membership interests of Change Healthcare JV at the equivalent of its offering price of \$13 per share. The proceeds from the concurrent offering of other securities were also used by Change to acquire certain securities of Change Healthcare JV. As a result, McKesson’s equity interest in Change Healthcare JV was reduced from 70% to approximately 58.5%, which was used to recognize our proportionate share in net loss from Change Healthcare JV, commencing in the second quarter of 2020. As a result of the ownership dilution to 58.5% from 70%, we recognized a dilution loss of approximately \$246 million in the second quarter of 2020. Additionally, our proportionate share of income or loss from this investment was subsequently reduced as immaterial settlements of stock option exercises occurred after the IPO and further diluted our ownership.

In the second quarter of 2020, we recorded an other-than-temporary-impairment (“OTTI”) charge of \$1.2 billion to our investment in Change Healthcare JV, representing the difference between the carrying value of our investment and the fair value derived from the corresponding closing price of Change’s common stock at September 30, 2019. This charge was included within “Equity earnings and charges from investment in Change Healthcare Joint Venture” in our Consolidated Statements of Operations for the year ended March 31, 2020.

On March 10, 2020, we completed the previously announced separation of our interest in Change Healthcare JV, which eliminated our investment in the joint venture. The separation was effected through the split-off of PF2 SpinCo, Inc. (“SpinCo”), a wholly owned subsidiary of the Company that held all of our interest in Change Healthcare JV, to certain of our stockholders through an exchange offer (“Split-off”), followed by the merger of SpinCo with and into Change, with Change surviving the merger (“Merger”).

In connection with the exchange offer, on March 9, 2020, we distributed all 176.0 million outstanding shares of common stock of SpinCo to participating holders of the Company’s common stock in exchange for 15.4 million shares of McKesson common stock. Following consummation of the exchange offer, on March 10, 2020, the Merger was consummated, with each share of SpinCo common stock converted into one share of Change common stock, par value \$0.001 per share, with cash being paid in lieu of fractional shares of Change common stock. The Split-off and Merger are intended to be generally tax-free transactions to McKesson and its shareholders for U.S. federal income tax purposes. Following the Split-off, we do not beneficially own any of Change’s outstanding securities. In connection with this transaction, we recognized a net gain for financial reporting purposes of \$414 million during the fourth quarter of 2020, which was largely driven by the reversal of a related deferred tax liability. Under the agreement with Change Healthcare JV, McKesson, Change, and certain subsidiaries of the Change Healthcare JV, there may be changes in future periods to the amount reversed. Any such change is not expected to be material.

After the separation, Change Healthcare JV is required under the TRA to pay McKesson 85% of the net cash tax savings realized, or deemed to be realized, resulting from depreciation or amortization allocated to

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Change by McKesson. The receipt of any payments under the TRA is dependent upon Change benefiting from this depreciation or amortization in future tax return filings, which creates uncertainty over the amount, timing and probability of the gain recognized. As such, we accounted for the TRA as a gain contingency, with no receivable recognized as of March 31, 2021 nor 2020.

Interest Expense

Interest expense decreased in 2021 compared to the prior year primarily due to the repayment of \$1.0 billion of long-term debt in the third quarter of 2021 and a decrease in the issuance of commercial paper. Interest expense decreased in 2020 compared to the prior year primarily due to a decrease in the issuance of commercial paper, partially offset by a decrease in interest income from our derivative contracts. Interest expense fluctuates based on timing, amounts and interest rates of term debt repaid and new term debt issued, as well as amounts incurred associated with financing fees.

Income Tax (Benefit) Expense

We recorded income tax (benefit) expense of (\$695 million), \$18 million, and \$356 million for the years ended March 31, 2021, 2020, and 2019, respectively. Our reported income tax (benefit) expense rates were (13.8%), 1.6%, and 58.4% in 2021, 2020, and 2019, respectively.

Our reported income tax rate for 2021 was impacted by the charge for opioid-related claims of \$8.1 billion (\$6.8 billion after-tax).

Our reported income tax expense rate for 2020 was favorably impacted by a net gain on the Change Healthcare JV divestiture of \$414 million (pre-tax and after-tax), which was intended to generally be a tax-free split-off for U.S. federal income tax purposes, and unfavorably impacted by charges of \$275 million (pre-tax and after-tax) to remeasure assets and liabilities held for sale to fair value less costs to sell related to the completed contribution of the majority of our German pharmaceutical wholesale business to create a joint venture with WBA. Refer to Financial Note 2, "Investment in Change Healthcare Joint Venture" and Note 3, "Held for Sale," to the accompanying consolidated financial statements included in this Annual Report on Form 10-K for more information.

Our reported income tax expense rate for 2019 was unfavorably impacted by charges of \$1.8 billion (pre-tax and after-tax) to impair the carrying value of goodwill of our European RP and European PD reporting units within the International segment, given that these charges are generally not deductible for tax purposes. Refer to Financial Note 12, "Goodwill and Intangible Assets, Net," to the accompanying consolidated financial statements included in this Annual Report on Form 10-K for additional information.

Significant judgments and estimates are required in determining the consolidated income tax provision and evaluating income tax uncertainties. Although our major taxing jurisdictions include the U.S., Canada, and the U.K., we are subject to income taxes in numerous foreign jurisdictions. Our income tax expense, deferred tax assets and liabilities, and uncertain tax liabilities reflect management's best assessment of estimated current and future taxes to be paid. We believe that we have made adequate provision for all income tax uncertainties.

Income (Loss) from Discontinued Operations, Net of Tax

Income (loss) from discontinued operations, net of tax, was \$(1) million, \$(6) million, and \$1 million for the years ended March 31, 2021, 2020, and 2019, respectively.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests primarily represents ClarusONE, Vantage Oncology Holdings, LLC, and the accrual of the annual recurring compensation amount of €0.83 per McKesson Europe AG (“McKesson Europe”) share that McKesson is obligated to pay to the noncontrolling shareholders of McKesson Europe under the December 2014 domination and profit and loss transfer agreement (the “Domination Agreement”). Noncontrolling interests with redemption features, such as put rights, that are not solely within our control are considered redeemable noncontrolling interests. Redeemable noncontrolling interests are presented outside of McKesson Corporation stockholders’ equity (deficit) on our consolidated balance sheet. Refer to Financial Note 9, “Redeemable Noncontrolling Interests and Noncontrolling Interests,” to the accompanying consolidated financial statements included in this Annual Report on Form 10-K for additional information.

Net Income (Loss) Attributable to McKesson Corporation

Net income (loss) attributable to McKesson Corporation was \$(4.5) billion, \$900 million, and \$34 million for the years ended March 31, 2021, 2020, and 2019, respectively. Diluted earnings (loss) per common share attributable to McKesson Corporation was \$(28.26), \$4.95, and \$0.17 for the years ended March 31, 2021, 2020, and 2019, respectively. Net loss per diluted share for the year ended March 31, 2021 is calculated by excluding dilutive securities from the denominator due to their antidilutive effects. Additionally, our 2021, 2020, and 2019 diluted earnings (loss) per share reflect the cumulative effects of share repurchases.

Weighted-Average Diluted Common Shares Outstanding

Diluted earnings (loss) per common share was calculated based on a weighted-average number of shares outstanding of 160.6 million, 181.6 million, and 197.3 million for the years ended March 31, 2021, 2020, and 2019, respectively. Weighted-average diluted common shares outstanding is impacted by the exercise and settlement of share-based awards and the cumulative effect of share repurchases, including the impact of shares exchanged as part of the split-off from our investment in Change Healthcare JV, as discussed above.

Overview of Segment Results:

Segment Revenues:

<i>(Dollars in millions)</i>	Years Ended March 31,			Change	
	2021	2020	2019	2021	2020
Segment revenues					
U.S. Pharmaceutical	\$189,274	\$181,700	\$166,189	4%	9%
International	35,965	38,341	38,023	(6)	1
Medical-Surgical Solutions	10,099	8,305	7,618	22	9
Prescription Technology Solutions	2,890	2,705	2,489	7	9
Total revenues	<u>\$238,228</u>	<u>\$231,051</u>	<u>\$214,319</u>	3%	8%

U.S. Pharmaceutical

2021 vs. 2020

U.S. Pharmaceutical revenues for the year ended March 31, 2021 increased 4% compared to the prior year primarily due to market growth, including branded pharmaceutical price increases, growth in specialty

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

pharmaceuticals, and higher volumes from retail national account customers, partially offset by branded to generic drug conversions. Revenues for this segment were unfavorably impacted by fluctuations in demand for pharmaceuticals in retail pharmacies and institutional healthcare providers due to COVID-19 largely during the onset of the pandemic in late March 2020 and during our first quarter of 2021 combined with the loss of certain customers.

2020 vs. 2019

U.S. Pharmaceutical revenues for the year ended March 31, 2020 increased 9% compared to the prior year primarily due to market growth, including branded pharmaceutical price increases, growth in specialty pharmaceuticals, higher volumes from retail national account customers, partially offset by branded to generic drug conversions.

International

2021 vs. 2020

International revenues for the year ended March 31, 2021 decreased 6% compared to the prior year. Excluding the favorable effects of foreign currency exchange fluctuations, revenues for this segment decreased 9% primarily due to the contribution of our German pharmaceutical wholesale business to a joint venture with WBA and to a lesser extent, the exit of unprofitable customers in our Canadian business. Revenues for this segment were also unfavorably impacted by lower volumes from the adverse impacts from COVID-19 in our pharmaceutical distribution and retail pharmacy businesses within Europe.

2020 vs. 2019

International revenues for the year ended March 31, 2020 increased 1% compared to the prior year. Excluding the unfavorable effects of foreign currency exchange fluctuations, revenues for this segment increased 4% primarily due to market growth in our European pharmaceutical distribution and retail pharmacy businesses.

Medical-Surgical Solutions

2021 vs. 2020

Medical-Surgical Solutions revenues for the year ended March 31, 2021 increased 22% compared to the prior year largely due to sales of COVID-19 tests and PPE.

2020 vs. 2019

Medical-Surgical Solutions revenues for the year ended March 31, 2020 increased 9% compared to the prior year primarily due to market growth in our primary care business.

Prescription Technology Solutions

2021 vs. 2020

RxTS revenues for the year ended March 31, 2021 increased 7% compared to the prior year driven by increased volume with new and existing customers primarily in our CoverMyMeds business.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

2020 vs. 2019

RxTS revenues for the year ended March 31, 2020 increased 9% compared to the prior year primarily driven by increased volume with new and existing customers.

Segment Operating Profit (Loss) and Corporate Expenses, Net:

<i>(Dollars in millions)</i>	Years Ended March 31,			Change	
	2021	2020	2019	2021	2020
Segment operating profit (loss) ⁽¹⁾					
U.S. Pharmaceutical ⁽²⁾	\$ 2,763	\$ 2,745	\$ 2,710	1%	1%
International ⁽³⁾	(37)	(161)	(1,903)	(77)	(92)
Medical-Surgical Solutions ⁽⁴⁾	707	499	455	42	10
Prescription Technology Solutions ⁽⁵⁾	395	396	355	—	12
Other ⁽⁶⁾	—	(1,113)	(104)	(100)	970
Subtotal	3,828	2,366	1,513	62	56
Corporate expenses, net ⁽⁷⁾	(8,645)	(973)	(639)	788	52
Interest expense	(217)	(249)	(264)	(13)	(6)
Income (loss) from continuing operations before income taxes	<u><u>\$ (5,034)</u></u>	<u><u>\$ 1,144</u></u>	<u><u>\$ 610</u></u>	(540)%	88%
Segment operating profit (loss) margin					
U.S. Pharmaceutical	1.46%	1.51%	1.63%	(5)bp	(12)bp
International	(0.10)	(0.42)	(5.00)	32	458
Medical-Surgical Solutions	7.00	6.01	5.97	99	4
Prescription Technology Solutions	13.67	14.64	14.26	(97)	38

bp — basis points

- (1) Segment operating profit (loss) includes gross profit, net of operating expenses, as well as other income (expense), net, for our reportable segments. For retrospective periods presented, operating loss for Other reflects equity earnings and charges from our equity method investment in Change Healthcare JV, which we split-off in the fourth quarter of 2020.
- (2) Operating profit for our U.S. Pharmaceutical segment includes a charge of \$50 million for the year ended March 31, 2021 related to our estimated liability under the OSA.
- (3) Operating loss for our International segment for the years ended March 31, 2021 and 2020 includes charges of \$58 million and \$275 million, respectively, to remeasure to fair value the assets and liabilities of our German pharmaceutical wholesale business which was contributed to a joint venture with WBA. This segment's operating loss for the years ended March 31, 2021 and 2019 includes goodwill impairment charges of \$69 million and \$1.8 billion, respectively, as well as long-lived asset impairment charges for the years ended March 31, 2021, 2020, and 2019 of \$115 million, \$112 million, and \$245 million, respectively, primarily related to our retail pharmacy businesses in Canada and Europe.
- (4) Operating profit for our Medical-Surgical Solutions segment for the year ended March 31, 2021 includes charges totaling \$136 million on certain PPE and other related products due to inventory impairments and excess inventory.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

- (5) Operating profit for our RxTS segment for the year ended March 31, 2019 includes a gain of \$56 million from the divestiture of an equity investment.
- (6) Operating loss for Other for the year ended March 31, 2020 includes an OTTI charge of \$1.2 billion and a dilution loss of \$246 million related to our investment in Change Healthcare JV, partially offset by a net gain of \$414 million related to the completed separation of our interest in Change Healthcare JV during the fourth quarter of 2020. Operating loss for the year ended March 31, 2019 includes a credit of \$90 million for the derecognition of a liability related to the TRA payable to the shareholders of Change.
- (7) Corporate expenses, net for the year ended March 31, 2021 includes a charge of \$8.1 billion related to our estimated liability for opioid-related claims, net gains of \$133 million from our equity investments, and a net gain of \$131 million recorded in connection with insurance proceeds received from the settlement of the shareholder derivative action related to our controlled substances monitoring program. Corporate expenses, net for the year ended March 31, 2020 includes pension settlement charges of \$122 million and a settlement charge of \$82 million related to opioid claims.

U.S. Pharmaceutical

2021 vs. 2020

Operating profit increased for the year ended March 31, 2021 compared to the prior year primarily due to an increase in net cash proceeds received of \$159 million in 2021 compared to 2020 representing our share of antitrust legal settlements, growth in specialty pharmaceuticals, and the contribution from our vaccine distribution programs. This was partially offset by a decrease in LIFO credits of \$214 million, a charge of \$50 million recorded in 2021 related to our estimated liability under the OSA, net impacts from COVID-19, including a less severe cough, cold, and flu season, as well as increased costs for strategic growth initiatives.

2020 vs. 2019

Operating profit increased for the year ended March 31, 2020 compared to the prior year primarily due to market growth in our specialty business. Operating profit and operating profit margin were favorably impacted by a charge of \$61 million related to a customer bankruptcy in 2019 and an increase in LIFO credits of \$42 million. Operating profit and operating profit margin were unfavorably impacted by customer mix and a decrease in net cash proceeds received of \$180 million representing our share of antitrust legal settlements.

International

2021 vs. 2020

Operating loss and operating loss margin improved for the year ended March 31, 2021 compared to the prior year primarily due to a decrease in the charges recorded to remeasure to fair value the assets and liabilities of our German pharmaceutical wholesale business which was contributed to a joint venture with WBA, of which \$58 million and \$275 million was reflected for the years ended March 31, 2021 and 2020, respectively. This was partially offset by a goodwill impairment charge of \$69 million recorded in the second quarter of 2021 related to our European retail pharmacy business. The impacts from COVID-19 in our pharmaceutical distribution and retail pharmacy businesses within Europe also caused unfavorability in our segment results year over year.

2020 vs. 2019

Operating loss and operating loss margin improved for the year ended March 31, 2020 compared to the prior year primarily due to goodwill impairment charges of \$1.8 billion in 2019 and a decrease in long-lived asset

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

impairment charges of \$112 million in 2020 compared to \$245 million in 2019. This was partially offset by the fair value remeasurement charges in 2020 described above and a gain from an escrow settlement of \$97 million in 2019 related to our 2017 acquisition of Rexall Health.

Medical-Surgical Solutions

2021 vs. 2020

Operating profit and operating profit margin increased for the year ended March 31, 2021 compared to prior year primarily due to COVID-19, including demand for COVID-19 tests and PPE, as well as the contribution from kitting and distribution of ancillary supplies for COVID-19 vaccines. This was partially offset by inventory charges on certain PPE and other related products, unfavorability in our primary care business due to customer closures largely during the first quarter of 2021, and a less severe cough, cold, and flu season. Additionally, operating profit was favorable year over year due to lower operating expenses, including a decrease in our provision for bad debts.

2020 vs. 2019

Operating profit and operating profit margin increased for the year ended March 31, 2020 compared to prior year primarily due to market growth in our primary care business and lower restructuring charges, partially offset by the remeasurement of assets and liabilities to fair value related to a divestiture that was completed in 2020 and higher operating expenses, including an increase in our provision for bad debts.

Prescription Technology Solutions

2021 vs. 2020

Operating profit remained relatively flat for the year ended March 31, 2021 compared to prior year primarily due to higher operating expenses to support business growth, offset by increased volume with new and existing customers. Operating profit margin decreased for the year ended March 31, 2021 compared to prior year primarily due to higher operating expenses.

2020 vs. 2019

Operating profit and operating profit margin increased for the year ended March 31, 2020 compared to prior year primarily due to increased volumes with new and existing customers, integration costs incurred in 2019 for our acquisition of RxCrossroads that closed during the fourth quarter of 2018, partially offset by a gain of \$56 million from the divestiture of an equity investment in 2019.

Other

Operating loss for Other for the year ended March 31, 2020 includes an OTTI charge of \$1.2 billion and a dilution loss of \$246 million related to our investment in Change Healthcare JV, partially offset by a net gain of \$414 million related to the completed separation of our interest in Change Healthcare JV during the fourth quarter of 2020. Operating loss for Other for the year ended March 31, 2019 includes a credit of \$90 million for the derecognition of a liability related to the TRA payable to the shareholders of Change. Operating loss for Other also includes our proportionate share of loss from Change Healthcare JV of \$119 million and \$194 million for the years ended March 31, 2020 and 2019, respectively.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Corporate

2021 vs. 2020

Corporate expenses, net increased for the year ended March 31, 2021 compared to the prior year due to a charge of \$8.1 billion related to our estimated liability for opioid-related claims.

Corporate expenses, net for 2021 also includes net gains recognized from our equity investments of \$133 million and a net gain of \$131 million recognized in connection with insurance proceeds received from the settlement of the shareholder derivative action related to our controlled substances monitoring program. Corporate expenses, net, for 2020 includes pension settlement charges of \$122 million, an opioid claim settlement charge of \$82 million, and net settlement gains of \$26 million recognized from our derivative contracts.

2020 vs. 2019

Corporate expenses, net, increased for the year ended March 31, 2020 compared to the prior year primarily due to the pension settlement charges and opioid claim settlement charge mentioned above, as well as higher costs for technology initiatives, partially offset by net settlement gains recognized in 2020 from our derivative contracts. Corporate expenses, net, for 2020 also included charitable contribution expenses of approximately \$20 million primarily for the McKesson Foundation.

Foreign Operations

Our foreign operations represented approximately 15%, 17%, and 18% of our consolidated revenues in 2021, 2020, and 2019, respectively. Foreign operations are subject to certain risks, including currency fluctuations. We monitor our operations and adopt strategies responsive to changes in the economic and political environment in each of the countries in which we operate. We conduct our business worldwide in local currencies including Euro, British pound sterling, and Canadian dollar. As a result, the comparability of our results reported in U.S. dollars can be affected by changes in foreign currency exchange rates. In discussing our operating results, we may use the term “foreign currency exchange fluctuations,” which refers to the effect of changes in foreign currency exchange rates used to convert the local currency results of our operations in foreign countries where the functional currency is not the U.S. dollar. We present this information to provide a framework for assessing how our business performed excluding the effect of foreign currency exchange rate fluctuations. In computing the foreign currency exchange fluctuations, we translate our current year results of our operations in foreign countries recorded in local currencies into U.S. dollars by applying their respective average foreign currency exchange rates of the corresponding prior year periods, and we subsequently compare those results to the previously reported results of the comparable prior year periods reported in U.S. dollars. Additional information regarding our foreign operations is included in Financial Note 22, “Segments of Business,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Business Combinations

Refer to Financial Note 5, “Business Acquisitions and Divestitures,” to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information.

Fiscal 2022 Outlook

Information regarding the Company’s fiscal 2022 outlook is contained in our Form 8-K dated May 6, 2021. That Form 8-K should be read in conjunction with the forward-looking statements in the “*Trends and*

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Uncertainties” section of this Financial Review, as well as the cautionary statements in Item 1, “Business — Forward-Looking Statements,” and Item 1A, “Risk Factors,” in Part I of this Annual Report on Form 10-K.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We consider an accounting estimate to be critical if the estimate requires us to make assumptions about matters that were uncertain at the time the accounting estimate was made and if different estimates that we reasonably could have used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on our financial condition or results from operations. Below are the estimates that we believe are critical to the understanding of our operating results and financial condition. Other accounting policies are described in Financial Note 1, “Significant Accounting Policies,” to the consolidated financial statements appearing in this Annual Report on Form 10-K. Because of the uncertainty inherent in such estimates, actual results may differ from these estimates.

Allowance for Doubtful Accounts: We provide short-term credit and other customer financing arrangements to customers who purchase our products and services. Other customer financing primarily relates to guarantees provided to our customers, or their creditors, regarding the repurchase of inventories. We also provide financing to certain customers related to the purchase of pharmacies, which serve as collateral for the loans. We estimate the receivables for which we do not expect full collection based on historical collection rates and specific knowledge regarding the current creditworthiness of our customers and record an allowance in our consolidated financial statements for these amounts.

The Company considers historical experience, the current economic environment, customer credit ratings or bankruptcies, and reasonable and supportable forecasts to develop its allowance for doubtful accounts. Management reviews these factors quarterly to determine if any adjustments are needed to the allowance.

Sales to the Company’s ten largest customers, including group purchasing organizations (“GPOs”), accounted for approximately 51% of total consolidated revenues in 2021 and comprised approximately 32% of total trade accounts receivable at March 31, 2021. Sales to our largest customer, CVS Health Corporation (“CVS”), accounted for approximately 21% of our total consolidated revenues in 2021 and comprised approximately 19% of total trade accounts receivable at March 31, 2021. As a result, our sales and credit concentration is significant. We also have agreements with GPOs, each of which functions as a purchasing agent on behalf of member hospitals, pharmacies and other healthcare providers, as well as with government entities and agencies. The accounts receivables balances are with individual members of the GPOs, and therefore no significant concentration of credit risk exists. A material default in payment, a material reduction in purchases from these or any other large customers, or the loss of a large customer or GPO could have a material adverse impact on our financial position, results of operations, and liquidity.

Reserve methodologies are assessed annually based on historical losses and economic, business and market trends. In addition, reserves are reviewed quarterly and updated if unusual circumstances or trends are present. We believe the reserves maintained and expenses recorded in 2021 are appropriate and consistent in the context of historical methodologies employed, as well as assessment of trends currently available.

At March 31, 2021, trade and notes receivables were \$17.5 billion prior to allowances of \$211 million. In 2021, 2020 and, 2019, our provision for bad debts was \$4 million, \$91 million, and \$132 million, respectively. At March 31, 2021 and 2020, the allowance as a percentage of trade and notes receivables was 1.2% and 1.4%, respectively. An increase or decrease of a hypothetical 0.1% in the 2021 allowance as a percentage of trade and notes receivables would result in an increase or decrease in the provision for bad debts of approximately

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

\$18 million. The selected 0.1% hypothetical change does not reflect what could be considered the best or worst-case scenarios. Additional information concerning our allowance for doubtful accounts may be found in Schedule II included in this Annual Report on Form 10-K.

Inventories: Inventories consist of merchandise held for resale. We report inventories at the lower of cost or net realizable value, except for inventories determined using the LIFO method which are valued at the lower of LIFO cost or market. LIFO method presumes that the most recent inventory purchases are the first items sold and the inventory cost under LIFO approximates market. The majority of the cost of domestic inventories is determined using the LIFO method. The majority of the cost of inventories held in foreign and certain domestic locations is based on the first-in, first-out (“FIFO”) method and weighted-average purchase prices. Rebates, cash discounts and other incentives received from vendors relating to the purchase or distribution of inventory are considered product discounts and are accounted for as a reduction in the cost of inventory and are recognized when the inventory is sold.

At March 31, 2021 and 2020, total inventories, net were \$19.2 billion and \$16.7 billion, respectively, in our Consolidated Balance Sheets. The LIFO method was used to value approximately 58% and 60% of our inventories at March 31, 2021 and 2020, respectively. If we had used the moving average method of inventory valuation, inventories would have been approximately \$406 million and \$444 million higher than the amounts reported at March 31, 2021 and 2020, respectively. These amounts are equivalent to our LIFO reserves. The lower LIFO credits in 2021 compared to 2020 is primarily due to higher brand inflation and delays of branded off-patent to generic drug launches. Our LIFO valuation amount includes both pharmaceutical and non-pharmaceutical products. We recognized LIFO credits of \$38 million, \$252 million, and \$210 million, respectively, in 2021, 2020, and 2019 in our Consolidated Statements of Operations. A LIFO charge is recognized when the net effect of price increases on pharmaceutical and non-pharmaceutical products held in inventory exceeds the impact of price declines, including the effect of branded pharmaceutical products that have lost market exclusivity. A LIFO credit is recognized when the net effect of price declines exceeds the impact of price increases on pharmaceutical and non-pharmaceutical products held in inventory. Excluding LIFO reserves, our inventory reserves as of March 31, 2021 and 2020 were \$263 million and \$96 million, respectively. The increase was primarily due to 2021 charges totaling \$136 million on certain PPE and other related products due to inventory impairments and excess inventory within our Medical-Surgical Solutions segment.

We believe that the moving average inventory costing method provides a reasonable estimation of the current cost of replacing inventory (i.e., “market”). As such, our LIFO inventory is valued at the lower of LIFO or market. As of March 31, 2021 and 2020, inventories at LIFO did not exceed market.

In determining whether an inventory valuation allowance is required, we consider various factors including estimated quantities of slow-moving inventory by reviewing on-hand quantities, outstanding purchase obligations and forecasted sales. Shifts in market trends and conditions, changes in customer preferences due to the introduction of generic drugs or new pharmaceutical products or the loss of one or more significant customers are factors that could affect the value of our inventories. We write down inventories which are considered excess and obsolete as a result of these reviews. These factors could make our estimates of inventory valuation differ from actual results.

Business Combinations: The Company accounts for business combinations using the acquisition method of accounting whereby the identifiable assets and liabilities of the acquired business, as well as any noncontrolling interest in the acquired business, are recorded at their estimated fair values as of the date that the Company obtains control of the acquired business. Any purchase consideration in excess of the estimated fair values of the net assets acquired is recorded as goodwill. Acquisition-related expenses and related restructuring costs are expensed as incurred.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Several valuation methods may be used to determine the fair value of assets acquired and liabilities assumed. For intangible assets, we typically use a method that is a form or variation of the income approach, whereby a forecast of future cash flows attributable to the asset are discounted to present value using a risk-adjusted discount rate. Some of the more significant estimates and assumptions inherent in the income approach include the amount and timing of projected future cash flows, the discount rate selected to measure the risks inherent in the future cash flows and the assessment of the asset's expected useful life. Refer to Financial Note 5, "Business Acquisitions and Divestitures," to the consolidated financial statements included in this Annual Report on Form 10-K for additional information regarding our acquisitions.

Goodwill and Long-Lived Assets: As a result of acquiring businesses, we have \$9.5 billion and \$9.4 billion of goodwill at March 31, 2021 and 2020, respectively, and \$2.9 billion and \$3.2 billion of intangible assets, net at March 31, 2021 and 2020, respectively. We perform an impairment test on goodwill balances annually in the third quarter and more frequently if indicators for potential impairment exist. Indicators that are considered include significant declines in performance relative to expected operating results, significant changes in the use of the assets, significant negative industry or economic trends, or a significant decline in the Company's stock price and/or market capitalization for a sustained period of time.

Goodwill impairment testing is conducted at the reporting unit level, which is generally defined as an operating segment or a component, one level below our operating segments, for which discrete financial information is available and segment management regularly reviews the operating results of that reporting unit.

We apply the goodwill impairment test by comparing the estimated fair value of a reporting unit to its carrying value and recording an impairment charge equal to the amount of excess carrying value above the estimated fair value, if any, but not to exceed the amount of goodwill allocated to the reporting unit.

To estimate the fair value of our reporting units, we generally use a combination of the market approach and the income approach. Under the market approach, we estimate fair value by comparing the business to similar businesses, or guideline companies whose securities are actively traded in public markets. Under the income approach, we use a discounted cash flow ("DCF") model in which cash flows anticipated over several periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate rate that is commensurate with the risk inherent within the reporting unit. In addition, we compare the aggregate of the reporting units' fair values to our market capitalization as further corroboration of the fair values.

Estimates of fair value result from a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions at a point in time. Judgments made in determining an estimate of fair value may materially impact our results of operations. The valuations are based on information available as of the impairment testing date and are based on expectations and assumptions that have been deemed reasonable by management. Any material changes in key assumptions, including failure to meet business plans, negative changes in government reimbursement rates, deterioration in the U.S. and global financial markets, an increase in interest rates or an increase in the cost of equity financing by market participants within the industry or other unanticipated events and circumstances, may decrease the projected cash flows or increase the discount rates and could potentially result in an impairment charge. Under the market approach, significant estimates and assumptions also include the selection of appropriate guideline companies and the determination of appropriate valuation multiples to apply to the reporting unit. Under the income approach, significant estimates and assumptions also include the determination of discount rates. The discount rates represent the weighted-average cost of capital measuring the reporting unit's cost of debt and equity financing, which are weighted by the percentage of debt and percentage of equity in a company's target capital structure. Included in the estimate of the weighted-average cost of capital is the assumption of an unsystematic risk premium to address incremental

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

uncertainty related to the reporting units' future cash flow projections. An increase in the unsystematic risk premium increases the discount rate.

Based on the 2019 annual goodwill impairment tests, the estimated fair values of our reporting units, excluding the Europe Retail Pharmacy and Europe Pharmaceutical Distribution reporting units in our International segment, exceeded their carrying values. The impairment testing performed in 2020 did not indicate any material impairment of goodwill. The segment change in the second quarter of 2021 prompted changes in multiple reporting units across the Company. As a result, goodwill included in impacted reporting units was reallocated using a relative fair value approach and assessed for impairment both before and after the reallocation. We recorded a goodwill impairment charge of \$69 million in 2021 as the estimated fair value of the Europe Retail Pharmacy reporting unit was lower than its reassigned carrying value based on changes in the composition of the Europe Retail Pharmacy reporting unit within the International segment. At March 31, 2021, the balance of goodwill for the reporting units in Europe was approximately nil and the remaining balance of goodwill in the International segment primarily relates to one of our reporting units in Canada.

The estimated fair values of our McKesson Canada reporting unit in our International segment and our RxCrossroads reporting unit in our RxTS segment exceeded the carrying values of these reporting units by 11% and 14%, respectively, in 2021. The goodwill balance of these reporting units was \$1.5 billion for McKesson Canada and \$312 million for RxCrossroads at March 31, 2021 or approximately 19% of the consolidated goodwill balance. Generally, a decline in estimated future cash flows in excess of 16% for McKesson Canada and 17% for RxCrossroads or an increase in the discount rate in excess of approximately 1.5% could result in an indication of goodwill impairment for these reporting units in future reporting periods. Other risks, expenses and future developments, such as additional government actions, increased regulatory uncertainty, and material changes in key market assumptions that we were unable to anticipate as of the testing date may require us to further revise the projected cash flows, which could adversely affect the fair value of our other reporting units in future periods. Refer to Financial Note 12, "Goodwill and Intangible Assets, Net," to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information.

Currently, all of our intangible and other long-lived assets are amortized or depreciated based on the pattern of their economic consumption or on a straight-line basis over their estimated useful lives, ranging from one to 38 years. We review intangible assets for impairment at an asset group level whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Determination of recoverability of intangible assets is based on the lowest level of identifiable estimated future undiscounted cash flows resulting from use of the asset and its eventual disposition. Measurement of any impairment loss is based on the excess of the carrying value of the asset group over its fair value. Assumptions and estimates about future values and remaining useful lives of our purchased intangible assets are complex and subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts.

Our ongoing consideration of all the factors described previously could result in further impairment charges in the future, which could adversely affect our net income. Refer to Financial Note 4, "Restructuring, Impairment, and Related Charges" to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information.

Valuation of Equity Method Investments: We evaluate our investments for other-than-temporary impairments when circumstances indicate those assets may be impaired. When the decline in value is deemed to be other than temporary, an impairment is recognized to the extent that the fair value is less than the carrying value of the investment. We consider various factors in determining whether a loss in value of an investment is

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

other than temporary including: the length of time and the extent to which the fair value has been below cost, the financial condition of the investees, and our intent and ability to retain the investment for a period of time sufficient to allow for recovery of value. Management makes certain judgments and estimates in its assessment including but not limited to: identifying if circumstances indicate a decline in value is other than temporary, expectations about the business operations of investees, as well as industry, financial, and market factors. Any significant changes in assumptions or judgments in assessing impairments could result in an impairment charge.

Restructuring Charges: We have certain restructuring reserves which require significant estimates related to the timing and amount of future employee severance and other exit-related costs to be incurred when the restructuring actions take place. We generally recognize employee severance costs when payments are probable and amounts are estimable. Costs related to contracts without future benefit or contract termination are recognized at the earlier of the contract termination or the cease-use dates. Other exit-related costs are recognized as incurred. In connection with these restructuring actions, we also assess the recoverability of long-lived assets used in the business, and as a result, we may recognize accelerated depreciation and amortization reflecting shortened useful lives of the underlying assets.

Income Taxes: Our income tax expense and deferred tax assets and liabilities reflect management's best assessment of estimated current and future taxes to be paid. We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax provision and in evaluating income tax uncertainties and include those used to conclude on the tax-free nature of the separation of the Change Healthcare JV and the unrecognized tax position related to opioid-related litigation and claims, which remains unfinalized, and which may differ from the actual amounts of tax benefit recognized. We review our tax positions at the end of each quarter and adjust the balances as new information becomes available.

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets, we consider all available positive and negative evidence including our past operating results, the existence of cumulative net operating losses in the most recent years, and our forecast of future taxable income. In estimating future taxable income, we develop assumptions including the amount of future federal, state and foreign pre-tax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we use to manage the underlying businesses.

Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. Should tax laws change, our tax expense and cash flows could be materially impacted.

In addition, the calculation of our tax liabilities includes estimates for uncertainties in the application of complex new tax regulations across multiple global jurisdictions where we conduct our operations.

We recognize liabilities for tax and related interest for issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes and related interest will be due. If our current estimate of tax and interest liabilities is less than the ultimate settlement, an additional charge to income tax expense may result. If our current estimate of tax and interest liabilities is more than the ultimate settlement, a reduction to income tax expense may be recognized.

Loss Contingencies: We are subject to various claims, including claims with customers and vendors, pending and potential legal actions for damages, investigations relating to laws and regulations and other matters

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

arising out of the normal conduct of our business. When a loss is considered probable and reasonably estimable, we record a liability in the amount of our best estimate for the ultimate loss. However, the likelihood of a loss with respect to a particular contingency is often difficult to predict and determining a meaningful estimate of the loss or a range of loss may not be practicable based on the information available and the potential effect of future events and decisions by third parties that will determine the ultimate resolution of the contingency. Moreover, it is not uncommon for such matters to be resolved over many years, during which time relevant developments and new information must be reevaluated at least quarterly to determine both the likelihood of potential loss and whether it is possible to reasonably estimate a range of possible loss. When a material loss is reasonably possible or probable but a reasonable estimate cannot be made, disclosure of the proceeding is provided. Legal fees are recognized as incurred when the legal services are provided.

We review all contingencies at least quarterly to determine whether the likelihood of loss has changed and to assess whether a reasonable estimate of the potential loss or range of the loss can be made. As discussed above, development of a meaningful estimate of loss or a range of potential loss is complex when the outcome is directly dependent on future negotiations with or decisions by third parties, such as regulatory agencies, the court system and other interested parties. In conjunction with the preparation of the accompanying financial statements, we considered matters related to ongoing controlled substances claims to which we are a party. As a result of ongoing, advanced discussions with state attorneys general and plaintiffs' representatives regarding a framework to resolve the claims of governmental entities, and our assessment of certain other opioid-related claims, we have reached a stage at which a broad settlement of opioid claims by governmental entities is probable and recorded a charge of \$8.1 billion for the year ended March 31, 2021 within "Claims and litigation charges, net" in our Consolidated Statement of Operations in this report. Because of the many uncertainties associated with any potential settlement arrangement or other resolution of opioid-related litigation, including the uncertainty of the scope of participation by plaintiffs in any potential settlement, we are not able to reasonably estimate the upper or lower ends of the range of ultimate possible loss for all opioid-related litigation matters. While we are not able to predict the outcome or reasonably estimate a range of possible losses in these matters, an adverse judgment or negotiated resolution in any of these matters could have a material adverse effect on our results of operations, consolidated financial position, cash flows or liquidity. Refer to Financial Note 19, "Commitments and Contingent Liabilities," to the consolidated financial statements included in this Annual Report on Form 10-K for additional information.

FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

We expect our available cash generated from operations and our short-term investment portfolio, together with our existing sources of liquidity from our credit facilities and commercial paper program, will be sufficient to fund our short-term and long-term capital expenditures, working capital, and other cash requirements. As described within the "*Trends and Uncertainties*" section above, the COVID-19 pandemic continues to develop rapidly. We continue to monitor its impact on demand within parts of our business, as well as trends potentially impacting the timing or ability for some of our customers to pay amounts owed to us. We remain well-capitalized with access to liquidity from our \$4.0 billion revolving credit facility. Additionally, long-term debt markets and commercial paper markets, our primary sources of capital after cash flow from operations, have remained open and accessible to us during the COVID-19 pandemic. We have seen continued improvement in conditions in the debt markets and commercial paper markets as the Federal Reserve has taken steps to stabilize the markets. At March 31, 2021, we were in compliance with all debt covenants, and believe we have the ability to continue to meet our debt covenants in the future.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

The following table summarizes the net change in cash, cash equivalents, and restricted cash for the periods shown:

<i>(Dollars in millions)</i>	Years Ended March 31,			Change	
	2021	2020	2019	2021	2020
Net cash provided by (used in):					
Operating activities	\$ 4,542	\$ 4,374	\$ 4,036	\$ 168	\$ 338
Investing activities	(415)	(579)	(1,381)	164	802
Financing activities	(1,693)	(2,734)	(2,227)	1,041	(507)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(61)	(19)	(119)	(42)	100
Net change in cash, cash equivalents, and restricted cash	<u>\$ 2,373</u>	<u>\$ 1,042</u>	<u>\$ 309</u>	<u>\$1,331</u>	<u>\$ 733</u>

Operating Activities

Net cash provided from operating activities was \$4.5 billion, \$4.4 billion, and \$4.0 billion for the years ended March 31, 2021, 2020, and 2019, respectively. Cash flows from operations can be significantly impacted by factors such as the timing of receipts from customers and payments to vendors. Additionally, working capital is primarily a function of sales and purchase volumes, inventory requirements, and vendor payment terms. Operating activities for the year ended March 31, 2021 were affected by net income adjusted for non-cash items, including the pre-tax \$8.1 billion (after-tax \$6.8 billion) non-cash charge related to our estimated liability for opioid-related claims, an increase in inventory of \$2.3 billion and an increase in drafts and accounts payable of \$1.3 billion driven by higher inventory stock levels to meet increased volume demand as part of our inventory management, as well as a decrease in receivables of \$1.1 billion driven by timing, higher sales recognized at the end of March 2020, and higher collections in our fourth quarter of 2021. Operating activities for the year ended March 31, 2020 were affected by increases in drafts and accounts payable of \$4.0 billion primarily associated with timing, replenishing inventory stocks, and effective working capital management, and an increase in receivables of \$2.5 billion primarily due to revenue growth. Operating activities for the year ended March 31, 2019 were affected by increases in drafts and accounts payable of \$2.0 billion primarily due to increased inventory purchases and timing of payments, and an increase in receivables of \$1.0 billion due to the overall increase in sales volume and timing of receipts.

Other non-cash items within operating activities for the year ended March 31, 2021 primarily includes stock-based compensation of \$151 million and fair value remeasurement charges of \$58 million related to the contribution of our German pharmaceutical wholesale business to a joint venture with WBA. Other non-cash items for the year ended March 31, 2020 primarily includes fair value remeasurement charges of \$275 million described above, pension settlement charges of \$122 million, and stock-based compensation of \$119 million. Additionally, we made a cash payment of \$114 million from the executive benefit retirement plan in 2020. Other non-cash items for the year ended March 31, 2019 primarily includes stock-based compensation of \$95 million.

Investing Activities

Net cash used in investing activities was \$415 million, \$579 million, and \$1.4 billion for the years ended March 31, 2021, 2020, and 2019, respectively. Investing activities for the year ended March 31, 2021 include \$451 million and \$190 million in capital expenditures for property, plant, and equipment and capitalized software, respectively. Investing activities for the year ended March 31, 2021 also includes net cash proceeds of

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

\$400 million from sales of businesses and investments, including \$286 million in exchange for the contribution of our German pharmaceutical wholesale business to a joint venture with WBA.

Investing activities for the year ended March 31, 2020 include \$362 million and \$144 million in capital expenditures for property, plant, and equipment and capitalized software, respectively, and \$133 million of net cash payments for acquisitions.

Investing activities for the year ended March 31, 2019 include \$905 million of net cash payments for acquisitions, including \$784 million for our acquisition of Medical Specialties Distributors LLC, \$426 million and \$131 million in capital expenditures for property, plant, and equipment and capitalized software, respectively, and \$101 million of net cash proceeds from sales of businesses and investments.

Financing Activities

Net cash used in financing activities was \$1.7 billion, \$2.7 billion, and \$2.2 billion for the years ended March 31, 2021, 2020, and 2019, respectively. Financing activities for the year ended March 31, 2021 include cash receipts of \$6.3 billion and payments of \$6.3 billion from short-term borrowings, primarily commercial paper, along with the issuance of the 2025 Notes in a principal amount of \$500 million, the retirement of our \$700 million total principal amount of notes due on November 30, 2020 at a fixed interest rate of 3.65% upon maturity, and the redemption of our 4.75% \$323 million total principal of notes due on March 1, 2021 prior to maturity. The notes were redeemed using cash on hand and proceeds from the 2025 Notes. Financing activities for the year ended March 31, 2021 also include \$770 million of cash paid for stock repurchases and \$276 million of dividends paid. Cash used for other financing activities generally includes payments to noncontrolling interests and activity from our finance leases. Other financing activities for the year ended March 31, 2021 also include restricted cash net inflow related to funds temporarily held on behalf of unaffiliated medical practice groups and a payment of \$49 million to purchase shares of McKesson Europe through exercises of a put right option by noncontrolling shareholders.

Financing activities for the year ended March 31, 2020 include cash receipts of \$21.4 billion and payments of \$21.4 billion from short-term borrowings, primarily commercial paper. Financing activities for the year ended March 31, 2020 also include \$2.0 billion of cash paid for stock repurchases, repayments of long-term debt of \$298 million, and \$294 million of dividends paid.

Financing activities for the year ended March 31, 2019 include cash receipts of \$37.3 billion and payments of \$37.3 billion from short-term borrowings, primarily commercial paper. We received cash from long-term debt issuances of \$1.1 billion and made repayments on long-term debt of \$1.1 billion in 2019. Financing activities for the year ended March 31, 2019 also include \$1.6 billion of cash paid for stock repurchases and \$292 million of dividends paid.

Share Repurchase Plans

The Board has authorized the repurchase of McKesson's common stock from time to time in open market transactions, privately negotiated transactions, accelerated share repurchase ("ASR") programs, or by combinations of such methods, any of which may use pre-arranged trading plans that are designed to meet the requirements of Rule 10b5-1(c) of the Securities Exchange Act of 1934. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations, and other market and economic conditions.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Information regarding the share repurchase activity over the last three years is as follows:

	Share Repurchases ⁽¹⁾		
	Total Number of Shares Purchased ⁽²⁾	Average Price Paid Per Share	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
<i>(In millions, except price per share data)</i>			
Balance, March 31, 2018			\$ 1,096
Shares repurchase plans authorized in May 2018			4,000
Shares repurchased — Open market	10.4	\$132.14	(1,377)
Shares repurchased — ASR	2.1	\$117.98	(250)
Balance, March 31, 2019			3,469
Shares repurchased — Open market	9.2	\$144.68	(1,334)
Shares repurchased — ASR	4.7	\$127.68	(600)
Balance, March 31, 2020			1,535
Shares repurchase plans authorized in January 2021			2,000
Shares repurchased — Open market ⁽³⁾	4.7	\$160.33	(750)
Balance, March 31, 2021			<u>\$ 2,785</u>

- (1) This table does not include the value of equity awards surrendered to satisfy tax withholding obligations. It also excludes shares related to the Split-off of the Change Healthcare JV as described below.
- (2) The number of shares purchased reflects rounding adjustments.
- (3) \$8 million was accrued within “Other accrued liabilities” on our Consolidated Balance Sheet as of March 31, 2021 for share repurchases that were executed in late March and settled in early April.

During the last three years, our share repurchases were transacted through both open market transactions and ASR programs with third party financial institutions.

In 2019, we retired 5.0 million or \$542 million of the Company’s treasury shares previously repurchased. Under the applicable state law, these shares resume the status of authorized and unissued shares upon retirement. In accordance with our accounting policy, we allocate any excess of share repurchase price over par value between additional paid-in capital and retained earnings. Accordingly, our retained earnings and additional paid-in capital were reduced by \$472 million and \$70 million during 2019, respectively.

On March 9, 2020, we completed the Split-off of our interest in the Change Healthcare JV. In connection with the Split-off, we distributed all 176.0 million outstanding shares of SpinCo common stock, which held all of the Company’s interests in the Change Healthcare JV, to participating holders of the Company’s common stock in exchange for 15.4 million shares of McKesson stock, which are now held as treasury stock on our consolidated balance sheet. Following consummation of the exchange offer, on March 10, 2020, SpinCo merged with and into Change and each share of SpinCo common stock was converted into one share of Change common stock, par value \$0.001 per share, with cash being paid in lieu of fractional shares of Change common stock. See Note 2, “Investment in Change Healthcare Joint Venture” to the accompanying consolidated financial statements included in this Annual Report on Form 10-K for more information.

The total authorization outstanding for repurchase of the Company’s common stock was \$2.8 billion at March 31, 2021.

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

We believe that our future operating cash flow, financial assets, and current access to capital and credit markets, including our existing credit facilities, will give us the ability to meet our financing needs for the foreseeable future. However, there can be no assurance that an increase in volatility or disruption in the global capital and credit markets will not impair our liquidity or increase our costs of borrowing. As described within the “Trends and Uncertainties” section above, the COVID-19 pandemic continues to develop rapidly. We continue to monitor its impact on demand within parts of our business, as well as trends potentially impacting the timing or ability for some of our customers to pay amounts owed to us.

Selected Measures of Liquidity and Capital Resources:

<i>(Dollars in millions)</i>	March 31,		
	2021	2020	2019
Cash, cash equivalents, and restricted cash	\$ 6,396	\$4,023	\$2,981
Working capital	1,279	(402)	839
Days sales outstanding for: ⁽¹⁾			
Customer receivables	26	26	26
Inventories	31	27	31
Drafts and accounts payable	63	61	62
Debt to capital ratio ⁽²⁾	83.1%	52.1%	43.3%
Return on McKesson stockholders' equity (deficit) ⁽³⁾	(142.5)%	13.3%	0.4%

- (1) Based on year-end balances and sales or cost of sales for the last 90 days of the year.
- (2) This ratio describes the relationship and changes within our capital resources, and is computed as total debt divided by the sum of total debt and McKesson stockholders' equity (deficit), which excludes noncontrolling and redeemable noncontrolling interests and accumulated other comprehensive loss.
- (3) Ratio is computed as net income (loss) attributable to McKesson Corporation for the last four quarters, divided by a five-quarter average of McKesson stockholders' equity (deficit), which excludes noncontrolling and redeemable noncontrolling interests.

Cash equivalents, which are readily convertible to known amounts of cash, are carried at fair value. Cash equivalents are primarily invested in AAA-rated U.S. government money market funds and overnight deposits with financial institutions. Deposits with financial institutions are primarily denominated in U.S. dollars and the functional currencies of our foreign subsidiaries, including Euro, British pound sterling, and Canadian dollars. We mitigate the risk of our short-term investment portfolio by depositing funds with reputable financial institutions and monitoring risk profiles and investment strategies of money market funds.

Our cash and cash equivalents balance as of March 31, 2021 and 2020 included approximately \$2.3 billion and \$1.7 billion of cash held by our subsidiaries outside of the U.S., respectively. Our primary intent is to utilize this cash for foreign operations for an indefinite period of time. Although the vast majority of cash held outside the U.S. is available for repatriation, doing so could subject us to foreign withholding taxes and state income taxes. Following enactment of the 2017 Tax Cuts and Jobs Act, the repatriation of cash to the U.S. is generally no longer taxable for federal income tax purposes.

Working capital primarily includes cash and cash equivalents, receivables, and inventories, net of drafts and accounts payable, short-term borrowings, current portion of long-term debt, and other current liabilities. Our businesses require substantial investments in working capital that are susceptible to large variations during the

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

year as a result of inventory purchase patterns and seasonal demands. Inventory purchase activity is a function of sales activity and other requirements. The COVID-19 pandemic has potential to increase the variations in our working capital, which we continue to monitor closely.

Consolidated working capital improved at March 31, 2021 compared to the prior year primarily due to an increase in cash and cash equivalents and inventory, partially offset by an increase in drafts and accounts payable and a decrease in receivables. Consolidated working capital decreased at March 31, 2020 compared to the prior year primarily due to an increase in drafts and accounts payable and the current portion of long-term debt for term notes due in 2021, partially offset by an increase in receivables and cash and cash equivalents.

Our debt to capital ratio increased for the year ended March 31, 2021 primarily due to a decrease in stockholders' equity driven by net loss for the year and share repurchases. Our unfavorable return on McKesson's stockholder's equity (deficit) as of March 31, 2021 was also driven by net loss for the year. Net loss for the year ended March 31, 2021 includes an after-tax non-cash charge of \$6.8 billion related to our estimated liability for opioid-related claims, as discussed in "Trends and Uncertainties" of this Financial Review and Financial Note 19, "Commitments and Contingent Liabilities," to the accompanying consolidated financial statements included in this Annual Report on Form 10-K. Our debt to capital ratio increased for 2020 primarily due to a decrease in stockholders' equity driven by the Split-off of our interest in Change Healthcare JV and share repurchases.

On July 29, 2020, we raised our quarterly dividend from \$0.41 to \$0.42 per common share for dividends declared on or after such date by the Board. Dividends were \$1.67 per share in 2021, \$1.62 per share in 2020, and \$1.51 per share in 2019. We anticipate that we will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon our future earnings, financial condition, capital requirements, and other factors. In 2021, 2020, and 2019, we paid total cash dividends of \$276 million, \$294 million, and \$292 million, respectively. Additionally, as required under the Domination Agreement, we are obligated to pay an annual recurring compensation amount of €0.83 per McKesson Europe share (effective January 1, 2015) to the noncontrolling shareholders of McKesson Europe.

Contractual Obligations:

The table and information below presents our significant financial obligations and commitments at March 31, 2021:

(In millions)	Total	Years			
		Within 1	Over 1 to 3	Over 3 to 5	After 5
On balance sheet					
Total debt ⁽¹⁾	\$ 7,148	\$ 742	\$1,970	\$1,253	\$3,183
Operating lease obligations ⁽²⁾	2,505	433	733	516	823
Other ⁽³⁾	250	30	53	51	116
Off balance sheet					
Interest on borrowings ⁽⁴⁾	1,617	199	367	268	783
Purchase obligations ⁽⁵⁾	7,354	7,268	76	10	—
Other ⁽⁶⁾	472	268	59	26	119
Total	\$19,346	\$8,940	\$3,258	\$2,124	\$5,024

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

- (1) Represents maturities of the Company's long-term obligations, including an immaterial amount of finance lease obligations.
- (2) Represents undiscounted minimum operating lease obligations under non-cancelable operating leases having an initial remaining term over one year and is not adjusted for imputed interest. Refer to Financial Note 11, "Leases" to the consolidated financial statements appearing in this Annual Report on Form 10-K for more information.
- (3) Includes our estimated benefit payments for the unfunded benefit plans and minimum funding requirements for the pension plans.
- (4) Primarily represents interest that will become due on our fixed rate long-term debt obligations.
- (5) A purchase obligation is defined as an arrangement to purchase goods or services that is enforceable and legally binding on the Company. These obligations primarily relate to inventory purchases and capital commitments.
- (6) Includes agreements under which we have guaranteed the repurchase of our customers' inventory and our customers' debt in the event these customers are unable to meet their obligations to those financial institutions.

The contractual obligations table above excludes the following obligations:

At March 31, 2021, the liability recorded for uncertain tax positions, excluding associated interest and penalties, was approximately \$738 million. Additionally, any future payments that may be made related to our estimated litigation liability of \$8.1 billion for opioid-related claims, as described in the "*Trends and Uncertainties*" section in this Financial Review and Financial Note 19, "Commitments and Contingent Liabilities," to the consolidated financial statements included in this Annual Report on Form 10-K, are excluded. The ultimate amount and timing of any future cash settlements related to these items cannot be predicted with reasonable certainty.

Our banks and insurance companies have issued \$146 million of standby letters of credit and surety bonds at March 31, 2021. These were issued on our behalf and are mostly related to our customer contracts and to meet the security requirements for statutory licenses and permits, court and fiduciary obligations, and our workers' compensation and automotive liability programs.

Our redeemable noncontrolling interests primarily relate to our consolidated subsidiary, McKesson Europe. Under the Domination Agreement, the noncontrolling shareholders of McKesson Europe have a right to put ("Put Right") their shares at €22.99 per share, increased annually for interest in the amount of five percentage points above a base rate published semi-annually by the German Bundesbank, less any compensation amount or guaranteed dividend already paid by McKesson ("Put Amount"). The exercise of the Put Right will reduce the balance of redeemable noncontrolling interests. During 2021, we paid \$49 million to purchase 1.8 million shares of McKesson Europe through exercises of the Put Right by the noncontrolling shareholders. During 2020 and 2019, there were no material exercises of the Put Right.

The balance of redeemable noncontrolling interests is reported at the greater of its carrying value or its maximum redemption value at each reporting date. The redemption value is the Put Amount adjusted for exchange rate fluctuations each period. The carrying value of redeemable noncontrolling interests is also adjusted each period for the portion of other comprehensive income attributable to the noncontrolling shareholders, which is primarily due to changes in foreign currency exchange rates. At March 31, 2021 and 2020, the carrying value of redeemable noncontrolling interests related to McKesson Europe of \$1.3 billion and \$1.4 billion, respectively, exceeded the maximum redemption value of \$1.2 billion. In future periods, unfavorable foreign currency exchange rate fluctuations between the Euro and the U.S. dollar could adversely impact the carrying value of our

McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

redeemable noncontrolling interests and require an adjustment to increase the balance of our redeemable noncontrolling interests to its maximum redemption value. Such adjustments would be recorded in “Net income attributable to noncontrolling interests” in our consolidated statements of operations.

Additionally, we are obligated to pay an annual recurring compensation of €0.83 per McKesson Europe share (the “Compensation Amount”) to the noncontrolling shareholders of McKesson Europe under the Domination Agreement. The Compensation Amount is recognized ratably during the applicable annual period. The Domination Agreement does not expire, but it may be terminated at the end of any fiscal year by giving at least six month’s advance notice. The Put Amount, Compensation Amount, and the guaranteed dividend were subject to ongoing appraisal proceedings. On April 12, 2021, we received the Stuttgart Court of Appeals’ final ruling confirming the original put value of €22.99 per share and the annual recurring compensation of €0.83 per McKesson Europe share. The Put Right exercise window will expire on June 15, 2021. While the ultimate amount of any future cash payments related to exercises of the Put Right are uncertain, Put Right exercises could result in cash payments of up to approximately \$1.3 billion prior to the expiration of the Put Right.

Refer to Financial Note 9, “Redeemable Noncontrolling Interests and Noncontrolling Interests,” to the consolidated financial statements included in this Annual Report on Form 10-K for additional information on redeemable noncontrolling interests.

Credit Resources:

We fund our working capital requirements primarily with cash and cash equivalents as well as short-term borrowings from our credit facilities and commercial paper issuances. Funds necessary for future debt maturities and our other cash requirements are expected to be met by existing cash balances, cash flow from operations, existing credit sources, and other capital market transactions. Detailed information regarding our debt and financing activities is included in Financial Note 13, “Debt and Financing Activities,” to the consolidated financial statements included in this Annual Report on Form 10-K.

RELATED PARTY BALANCES AND TRANSACTIONS

Information regarding our related party balances and transactions is included in Financial Note 2, “Investment in Change Healthcare Joint Venture,” and Financial Note 21, “Related Party Balances and Transactions,” to the consolidated financial statements included in this Annual Report on Form 10-K.

NEW ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements that we have recently adopted, as well as those that have been recently issued but not yet adopted by us, are included in Financial Note 1, “Significant Accounting Policies,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest rate risk: Our long-term debt bears interest predominately at fixed rates, whereas our short-term borrowings are at variable interest rates.

Our cash and cash equivalents balances earn interest at variable rates. At March 31, 2021 and 2020, we had \$6.3 billion and \$4.0 billion, respectively, in cash and cash equivalents. The effect of a hypothetical 50 bp increase in the underlying interest rate on our cash and cash equivalents, net of short-term borrowings and variable rate debt, would have resulted in a favorable impact to earnings in 2021 and 2020 of approximately \$17 million and \$6 million, respectively.

McKESSON CORPORATION
FINANCIAL REVIEW (Concluded)

Foreign exchange risk: We conduct our business worldwide in U.S. dollars and the functional currencies of our foreign subsidiaries, including Euro, British pound sterling, and Canadian dollar. Changes in foreign currency exchange rates could have a material adverse impact on our financial results that are reported in U.S. dollars. We are also exposed to foreign exchange rate risk related to our foreign subsidiaries, including intercompany loans denominated in non-functional currencies.

We have certain foreign exchange rate risk programs that use foreign currency forward contracts and cross-currency swaps. The forward contracts and cross-currency swaps are intended to reduce the income statement effects from fluctuations in foreign exchange rates and have been designated as cash flow hedges. These programs reduce but do not entirely eliminate foreign exchange risk.

As of March 31, 2021 and 2020, the effect of a hypothetical adverse 10% change in the underlying foreign currency exchange rates would have impacted the fair value of our foreign exchange contracts by approximately \$267 million and \$435 million, respectively. However, our risk management programs are designed such that the potential loss in value of these risk management portfolios described above would be largely offset by changes in the value of the underlying exposure. Refer to Financial Note 16, "Hedging Activities," for more information on our foreign currency forward contracts and cross-currency swaps.

The selected hypothetical change in interest rates and foreign currency exchange rates does not reflect what could be considered the best or worst case scenarios.

McKESSON CORPORATION**Item 8. Financial Statements and Supplementary Data.****INDEX TO CONSOLIDATED FINANCIAL INFORMATION**

	Page
Management's Annual Report on Internal Control Over Financial Reporting	70
Report of Independent Registered Public Accounting Firm	71
Consolidated Financial Statements:	
Consolidated Statements of Operations for the years ended March 31, 2021, 2020, and 2019	76
Consolidated Statements of Comprehensive Income (Loss) for the years ended March 31, 2021, 2020, and 2019	77
Consolidated Balance Sheets as of March 31, 2021 and 2020	78
Consolidated Statements of Stockholders' Equity for the years ended March 31, 2021, 2020, and 2019	79
Consolidated Statements of Cash Flows for the years ended March 31, 2021, 2020, and 2019	80
Financial Notes	81
Note 1 — Significant Accounting Policies	81
Note 2 — Investment in Change Healthcare Joint Venture	90
Note 3 — Held for Sale	93
Note 4 — Restructuring, Impairment, and Related Charges	94
Note 5 — Business Acquisitions and Divestitures	99
Note 6 — Share-Based Compensation	100
Note 7 — Other Income, Net	104
Note 8 — Income Taxes	105
Note 9 — Redeemable Noncontrolling Interests and Noncontrolling Interests	109
Note 10 — Earnings per Common Share	110
Note 11 — Leases	111
Note 12 — Goodwill and Intangible Assets, Net	115
Note 13 — Debt and Financing Activities	119
Note 14 — Variable Interest Entities	121
Note 15 — Pension Benefits	122
Note 16 — Hedging Activities	129
Note 17 — Fair Value Measurements	133
Note 18 — Financial Guarantees and Warranties	135
Note 19 — Commitments and Contingent Liabilities	136
Note 20 — Stockholders' Equity	145
Note 21 — Related Party Balances and Transactions	149
Note 22 — Segments of Business	150
Note 23 — Quarterly Financial Information (Unaudited)	155

McKESSON CORPORATION

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of McKesson Corporation is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). With the participation of the Chief Executive Officer and the Chief Financial Officer, our management conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework and criteria established in *Internal Control — Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management has concluded that our internal control over financial reporting was effective as of March 31, 2021.

Deloitte & Touche LLP, an independent registered public accounting firm, audited the financial statements included in this Annual Report on Form 10-K and has also audited the effectiveness of the Company's internal control over financial reporting as of March 31, 2021. This audit report appears on the following page of this Annual Report on Form 10-K.

May 12, 2021

/s/ Brian S. Tyler

Brian S. Tyler

Chief Executive Officer

(Principal Executive Officer)

/s/ Britt J. Vitalone

Britt J. Vitalone

Executive Vice President and

Chief Financial Officer

(Principal Financial Officer)

McKESSON CORPORATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of McKesson Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of McKesson Corporation and subsidiaries (the “Company”) as of March 31, 2021 and 2020, the related consolidated statements of operations, comprehensive income (loss), stockholders’ equity, and cash flows, for each of the three years in the period ended March 31, 2021, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the “financial statements”). We also have audited the Company’s internal control over financial reporting as of March 31, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2021, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

Change in Accounting Principle

As discussed in Note 11 to the financial statements, effective April 1, 2019, the Company adopted the Financial Accounting Standards Board’s (“FASB”) new standard related to leases using the modified retrospective basis.

Basis for Opinions

The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management’s Annual Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on these financial statements and an opinion on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

McKESSON CORPORATION

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Contingent Liabilities — Broad Settlement of Opioid Claims brought by Governmental Entities — Refer to Note 1 and Note 19 to the financial statements

Critical Audit Matter Description

The Company and its affiliates are defendants in many cases asserting claims related to distribution of controlled substances, including opioids. The Company is named as a defendant along with other pharmaceutical wholesale distributors, pharmaceutical manufacturers and retail pharmacy chains. The plaintiffs in these actions include state attorneys general, county and municipal governments, hospitals, tribal nations, health and welfare funds, third-party payors and individuals. The Company is in ongoing, advanced discussions with state attorneys general and plaintiffs' representatives, who represent states, their political subdivisions and other government entities ("governmental entities"), regarding a framework under which the three largest U.S. pharmaceutical distributors would pay up to approximately \$21.0 billion over a period of 18 years, with up to approximately \$8.0 billion to be paid by the Company to resolve the claims brought by governmental entities ("broad settlement of opioid claims"). When a loss is considered probable and reasonably estimable, the Company records a liability in the amount of its estimate for the ultimate loss. The Company reviews all loss contingencies at least quarterly to determine whether the likelihood of loss has changed and to assess whether a reasonable estimate of the loss or range of loss can be made. The Company also performs an assessment of loss contingencies where a loss is reasonably possible. If it is reasonably possible that a loss may have been incurred and the effect on the financial statements could be material, the Company discloses the nature of the loss contingency and an estimate of the possible loss or range of loss or a statement that such an estimate cannot be made within the notes to the financial statements. For the year ended March 31, 2021, management believes that a loss through broad settlement of opioid claims brought by governmental entities is both probable and reasonably estimable, and accordingly,

McKESSON CORPORATION

recorded a charge in the amount of \$8.0 billion, which represents management's best estimate of future loss related to these specific matters.

We identified the potential broad settlement of opioid claims as a critical audit matter because of the significant judgment and challenges auditing management's determination of whether such loss is probable and reasonably estimable. Specifically, auditing management's determination and disclosure of whether the contingent loss arising from the potential broad settlement of opioid claims is probable, and the related measurement of such loss, is subjective and requires significant judgment given that the potential loss is based upon settlement terms that have not yet been finalized.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the potential broad settlement of opioid claims included the following, among others:

- We tested the effectiveness of internal controls related to the potential broad settlement of opioid claims, and approval of the accounting treatment and related disclosures based on the most recent facts and circumstances.
- We inquired of the Company's internal and external legal counsel, as well as executives and other members of management, to understand the basis for the Company's conclusion that a loss related to a potential broad settlement of opioid claims, is probable and reasonably estimable as of March 31, 2021. In addition, we inspected responses to inquiry letters sent to both internal and external legal counsel as it relates to the status of discussions with plaintiffs' counsel and the Company's intent regarding the framework for a potential broad settlement of opioid claims.
- We evaluated management's analysis of the potential broad settlement of opioid claims, including the methodology used by management to determine the probability of such loss. We also evaluated the methodology used by management to estimate the most likely loss to be incurred by the Company as a result of a potential broad settlement of opioid claims.
- We examined Board of Directors meeting minutes, including relevant sub-committee meeting minutes, held inquiries with a director serving on the sub-committee, and compared to internal and external counsel's written responses to our inquiry letters.
- We performed public domain searches for evidence contrary to management's analysis.
- With the assistance of our specialists in accounting for loss contingencies, we evaluated the facts, evidence and the Company's related accounting treatment for the potential broad settlement of opioid claims.
- We evaluated any events subsequent to March 31, 2021 that might impact our evaluation of the potential broad settlement of opioid claims.
- We obtained written representations from executives and internal counsel of the Company.
- We examined proposed terms related to the potential broad settlement framework.
- We evaluated the Company's related disclosures for consistency with our testing.

Uncertain Tax Position — Broad Settlement of Opioid Claims brought by Governmental Entities — Refer to Note 1 and Note 8 to the financial statements

Critical Audit Matter Description

For the year ended March 31, 2021, the Company recognized \$1.3 billion of tax benefit related to a potential broad settlement of opioid claims and had an additional \$0.5 billion of potential benefit relating to an uncertain tax position that had not been recognized. Tax benefits from uncertain tax positions are recognized when it is

McKESSON CORPORATION

more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The net amount recognized by management is measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized. The Company uses significant judgment in evaluating the technical tax merits of income tax benefits that qualify for recognition, including the determination of the amount that is more likely than not of being realized for U.S. federal and state income tax purposes.

We identified the Company's uncertain tax position related to the charge for the potential broad settlement of opioid claims as a critical audit matter because of the challenges in auditing management's estimate of the amount of income tax benefit that qualifies for recognition. Specifically, auditing management's uncertain tax position in this area was challenging because the assumptions and estimates involved in management's analysis required significant judgment as they are based upon the potential terms of a broad settlement, including provisions related to deductibility, that have not yet been finalized. There is also significant judgment associated with the assessment of the technical tax merits of such a settlement, including the related interpretation of applicable tax laws and regulations.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the Company's uncertain tax position associated with a potential broad settlement of opioid claims included the following, among others:

- We tested the effectiveness of internal controls related to the Company's assessment of the technical merits of its tax position, including the Company's assessment as to the amount of benefit that is more likely than not to be realized.
- With the assistance of our tax specialists, we evaluated the facts, evidence and the Company's related income tax analysis for the charge related to the potential broad settlement of opioid claims, including assumptions used by management to measure the related recognized and unrecognized tax benefits.
- We inquired of the Company's internal and external legal counsel to understand the basis for the Company's conclusion that a portion of the potential broad settlement of opioid claims would be deductible based on the most recent discussions with plaintiffs' counsel.
- We held inquiries with the Company's external income tax advisors and we also read and evaluated management's documentation of information received from these external advisors, which informed the basis of management's position related to the uncertain tax position associated with the potential broad settlement of opioid claims.
- We compared management's income tax assessment of this matter to the treatment of other recorded opioid charges to evaluate the consistency of the Company's judgments related to the uncertain tax position.
- We evaluated any events subsequent to March 31, 2021 that might impact our evaluation of the Company's uncertain tax position related to the charge for the potential broad settlement of opioid claims.
- We obtained written representations from executives and internal counsel of the Company.
- We examined proposed terms related to the potential broad settlement framework.
- We evaluated the Company's related disclosures for consistency with our testing and also searched for contradictory evidence by reading disclosures from peer companies, who are also party to the potential broad settlement of opioid claims.

McKESSON CORPORATION

Goodwill — Refer to Note 1 and Note 12 to the financial statements

Critical Audit Matter Description

The Company's evaluation of goodwill for impairment involves comparing the carrying amount of each reporting unit to its fair value on the first day of the third fiscal quarter or whenever the Company believes a potential indicator of impairment requiring a more frequent assessment has occurred. The Company uses a combination of the income and market approaches to estimate reporting unit fair value. Under the market approach, fair value is estimated by comparing the business to similar businesses, or guideline companies whose securities are actively traded in public markets. Under the income approach, the Company uses a discounted cash flow ("DCF") model where cash flows anticipated over future periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate rate that is commensurate with the risk inherent within the reporting unit. The rate used to discount to present value includes an unsystematic risk premium, which is intended to address uncertainty related to the reporting unit's future cash flow projections. The goodwill balance was \$9.5 billion as of March 31, 2021, of which \$1.5 billion was allocated to the McKesson Canada reporting unit. The fair value of all reporting units exceeded their respective carrying amounts as of the measurement date and, therefore, no impairment was recognized.

We identified the estimation of the fair value of the McKesson Canada reporting unit used to evaluate the recoverability of goodwill as a critical audit matter because of the challenges auditing significant judgments used in the selection of a discount rate, including the unsystematic risk premium. In particular, the fair value estimate is sensitive to the unsystematic risk premium assumption, which is affected by expected risk of changes in the Canadian business and regulatory environments. Auditing management's selected discount rate required a high degree of auditor judgment and an increased extent of effort, including the need to involve more senior members of the team and our fair value specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the Company's selection of a discount rate, including consideration of the unsystematic risk premium, for the McKesson Canada reporting unit included the following, among others:

- We tested the effectiveness of internal controls related to management's goodwill impairment evaluation, including those related to the selection of a discount rate and consideration of an unsystematic risk premium.
- We evaluated management's ability to accurately forecast operating results for the McKesson Canada reporting unit by comparing actual results to management's historical forecasts, in order to consider the reasonableness and adequacy of management's selected unsystematic risk premium.
- As part of our assessment of the unsystematic risk premium, we evaluated the reasonableness of strategic plans expected to be implemented during the forecast period by comparing the forecasts to:
 - Actual results of historical strategic plans
 - Internal communications to management and the Board of Directors
- With the assistance of our fair value specialists, we evaluated the reasonableness of the discount rate, including the unsystematic risk premium, by developing a range of independent estimates, testing the mathematical accuracy of the calculation and comparing to the discount rate selected by management.

/s/ Deloitte & Touche LLP
 Dallas, Texas
 May 12, 2021

We have served as the Company's auditor since 1968.

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share amounts)

	Years Ended March 31,		
	2021	2020	2019
Revenues	\$ 238,228	\$ 231,051	\$ 214,319
Cost of sales	(226,080)	(219,028)	(202,565)
Gross profit	12,148	12,023	11,754
Operating expenses			
Selling, distribution, general, and administrative expenses	(8,849)	(9,182)	(8,437)
Claims and litigation charges, net	(7,936)	(82)	(37)
Goodwill impairment charges	(69)	(2)	(1,797)
Restructuring, impairment, and related charges, net	(334)	(268)	(597)
Total operating expenses	(17,188)	(9,534)	(10,868)
Operating income (loss)	(5,040)	2,489	886
Other income, net	223	12	182
Equity earnings and charges from investment in Change Healthcare Joint Venture	—	(1,108)	(194)
Interest expense	(217)	(249)	(264)
Income (loss) from continuing operations before income taxes	(5,034)	1,144	610
Income tax benefit (expense)	695	(18)	(356)
Income (loss) from continuing operations	(4,339)	1,126	254
Income (loss) from discontinued operations, net of tax	(1)	(6)	1
Net income (loss)	(4,340)	1,120	255
Net income attributable to noncontrolling interests	(199)	(220)	(221)
Net income (loss) attributable to McKesson Corporation	\$ (4,539)	\$ 900	\$ 34
Earnings (loss) per common share attributable to McKesson Corporation			
Diluted			
Continuing operations	\$ (28.26)	\$ 4.99	\$ 0.17
Discontinued operations	—	(0.04)	—
Total	\$ (28.26)	\$ 4.95	\$ 0.17
Basic			
Continuing operations	\$ (28.26)	\$ 5.01	\$ 0.17
Discontinued operations	—	(0.03)	—
Total	\$ (28.26)	\$ 4.98	\$ 0.17
Weighted-average common shares outstanding			
Diluted	160.6	181.6	197.3
Basic	160.6	180.6	196.3

See Financial Notes

McKESSON CORPORATION**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**
(In millions)

	Years Ended March 31,		
	2021	2020	2019
Net income (loss)	\$(4,340)	\$1,120	\$ 255
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments	184	(66)	(190)
Unrealized gains (losses) on cash flow hedges	(36)	86	24
Changes in retirement-related benefit plans	22	129	(32)
Other comprehensive income (loss), net of tax	170	149	(198)
Comprehensive income (loss)	(4,170)	1,269	57
Comprehensive income attributable to noncontrolling interests	(146)	(223)	(155)
Comprehensive income (loss) attributable to McKesson Corporation	<u>\$(4,316)</u>	<u>\$1,046</u>	<u>\$ (98)</u>

See Financial Notes

McKESSON CORPORATION

CONSOLIDATED BALANCE SHEETS
(In millions, except per share amounts)

	March 31,	
	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,278	\$ 4,015
Receivables, net	19,181	19,950
Inventories, net	19,246	16,734
Assets held for sale	12	906
Prepaid expenses and other	665	617
Total current assets	45,382	42,222
Property, plant, and equipment, net	2,581	2,365
Operating lease right-of-use assets	2,100	1,886
Goodwill	9,493	9,360
Intangible assets, net	2,878	3,156
Other non-current assets	2,581	2,258
Total assets	<u>\$ 65,015</u>	<u>\$ 61,247</u>
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND EQUITY		
Current liabilities		
Drafts and accounts payable	\$ 38,975	\$ 37,195
Current portion of long-term debt	742	1,052
Current portion of operating lease liabilities	390	354
Liabilities held for sale	9	683
Other accrued liabilities	3,987	3,340
Total current liabilities	44,103	42,624
Long-term debt	6,406	6,335
Long-term deferred tax liabilities	1,411	2,255
Long-term operating lease liabilities	1,867	1,660
Long-term litigation liabilities	8,067	—
Other non-current liabilities	1,715	1,662
Commitments and contingent liabilities (Note 19)		
Redeemable noncontrolling interests	1,271	1,402
McKesson Corporation stockholders' equity (deficit)		
Preferred stock, \$0.01 par value, 100 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.01 par value, 800 shares authorized, 273 and 272 shares issued at March 31, 2021 and 2020, respectively	2	2
Additional paid-in capital	6,925	6,663
Retained earnings	8,202	13,022
Accumulated other comprehensive loss	(1,480)	(1,703)
Treasury shares, at cost, 115 and 110 shares at March 31, 2021 and 2020, respectively	(13,670)	(12,892)
Total McKesson Corporation stockholders' equity (deficit)	(21)	5,092
Noncontrolling interests	196	217
Total equity	175	5,309
Total liabilities, redeemable noncontrolling interests, and equity	<u>\$ 65,015</u>	<u>\$ 61,247</u>

See Financial Notes

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In millions, except per share amounts)

	McKesson Corporation Stockholders' Equity									
	Common Stock		Additional Paid-in Capital	Other Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury		Noncontrolling Interests	Total Equity
	Shares	Amount					Common Shares	Amount		
Balances, March 31, 2018	275	\$ 3	\$6,188	\$ (1)	\$12,986	\$(1,717)	(73)	\$ (7,655)	\$ 253	\$10,057
Opening retained earnings adjustments: adoption of new accounting standards	—	—	—	—	154	—	—	—	—	154
Balances, April 1, 2018	275	3	6,188	(1)	13,140	(1,717)	(73)	(7,655)	253	10,211
Issuance of shares under employee plans	1	—	75	—	—	—	—	(12)	—	63
Share-based compensation	—	—	92	—	—	—	—	—	—	92
Payments to noncontrolling interests	—	—	—	—	—	—	—	—	(184)	(184)
Other comprehensive loss	—	—	—	—	—	(132)	—	—	—	(132)
Net income	—	—	—	—	34	—	—	—	176	210
Repurchase of common stock	—	—	150	—	—	—	(13)	(1,777)	—	(1,627)
Retirement of common stock	(5)	—	(70)	—	(472)	—	5	542	—	—
Cash dividends declared, \$1.51 per common share	—	—	—	—	(298)	—	—	—	—	(298)
Other	—	—	—	(1)	5	—	—	—	(52)	(48)
Balances, March 31, 2019	271	3	6,435	(2)	12,409	(1,849)	(81)	(8,902)	193	8,287
Opening retained earnings adjustments: adoption of new accounting standards	—	—	—	—	11	—	—	—	—	11
Balances, April 1, 2019	271	3	6,435	(2)	12,420	(1,849)	(81)	(8,902)	193	8,298
Issuance of shares under employee plans	1	—	113	—	—	—	—	(20)	—	93
Share-based compensation	—	—	115	—	—	—	—	—	—	115
Payments to noncontrolling interests	—	—	—	—	—	—	—	—	(154)	(154)
Other comprehensive income	—	—	—	—	—	146	—	—	—	146
Net income	—	—	—	—	900	—	—	—	178	1,078
Repurchase of common stock	—	—	—	—	—	—	(14)	(1,934)	—	(1,934)
Change Healthcare share exchange	—	—	—	—	—	—	(15)	(2,036)	—	(2,036)
Cash dividends declared, \$1.62 per common share	—	—	—	—	(294)	—	—	—	—	(294)
Other	—	(1)	—	2	(4)	—	—	—	—	(3)
Balances, March 31, 2020	272	2	6,663	—	13,022	(1,703)	(110)	(12,892)	217	5,309
Opening retained earnings adjustments: adoption of new accounting standard	—	—	—	—	(13)	—	—	—	—	(13)
Balances, April 1, 2020	272	2	6,663	—	13,009	(1,703)	(110)	(12,892)	217	5,296
Issuance of shares under employee plans	1	—	92	—	—	—	—	(28)	—	64
Share-based compensation	—	—	151	—	—	—	—	—	—	151
Payments to noncontrolling interests	—	—	—	—	—	—	—	—	(177)	(177)
Other comprehensive income	—	—	—	—	—	223	—	—	—	223
Net income (loss)	—	—	—	—	(4,539)	—	—	—	156	(4,383)
Exercise of put right by noncontrolling shareholders of McKesson Europe	—	—	3	—	—	—	—	—	—	3
Repurchase of common stock	—	—	—	—	—	—	(5)	(750)	—	(750)
Cash dividends declared, \$1.67 per common share	—	—	—	—	(270)	—	—	—	—	(270)
Other	—	—	16	—	2	—	—	—	—	18
Balances, March 31, 2021	<u>273</u>	<u>\$ 2</u>	<u>\$6,925</u>	<u>\$—</u>	<u>\$ 8,202</u>	<u>\$(1,480)</u>	<u>(115)</u>	<u>\$(13,670)</u>	<u>\$ 196</u>	<u>\$ 175</u>

See Financial Notes

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Years Ended March 31,		
	2021	2020	2019
OPERATING ACTIVITIES			
Net income (loss)	\$(4,340)	\$ 1,120	\$ 255
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation	321	321	317
Amortization	566	601	632
Goodwill and other asset impairment charges	242	139	2,079
Equity earnings and charges from investment in Change Healthcare Joint Venture	—	1,084	194
Deferred taxes	(908)	(342)	189
Credits associated with last-in, first-out inventory method	(38)	(252)	(210)
Non-cash operating lease expense	334	366	—
(Gain) loss from sales of businesses and investments	(9)	33	(86)
Other non-cash items	188	615	52
Changes in assets and liabilities, net of acquisitions:			
Receivables	1,145	(2,494)	(967)
Inventories	(2,276)	(376)	(368)
Drafts and accounts payable	1,267	3,952	1,976
Operating lease liabilities	(362)	(377)	—
Taxes	(166)	(8)	(95)
Litigation liabilities	8,067	—	—
Other	511	(8)	68
Net cash provided by operating activities	4,542	4,374	4,036
INVESTING ACTIVITIES			
Payments for property, plant, and equipment	(451)	(362)	(426)
Capitalized software expenditures	(190)	(144)	(131)
Acquisitions, net of cash, cash equivalents, and restricted cash acquired	(35)	(133)	(905)
Proceeds from sales of businesses and investments, net	400	37	101
Other	(139)	23	(20)
Net cash used in investing activities	(415)	(579)	(1,381)
FINANCING ACTIVITIES			
Proceeds from short-term borrowings	6,323	21,437	37,265
Repayments of short-term borrowings	(6,323)	(21,437)	(37,268)
Proceeds from issuances of long-term debt	500	—	1,099
Repayments of long-term debt	(1,040)	(298)	(1,112)
Common stock transactions:			
Issuances	92	113	75
Share repurchases, including shares surrendered for tax withholding	(770)	(1,954)	(1,639)
Dividends paid	(276)	(294)	(292)
Other	(199)	(301)	(355)
Net cash used in financing activities	(1,693)	(2,734)	(2,227)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(61)	(19)	(119)
Net increase in cash, cash equivalents, and restricted cash	2,373	1,042	309
Cash, cash equivalents, and restricted cash at beginning of year	4,023	2,981	2,672
Cash, cash equivalents, and restricted cash at end of year	6,396	4,023	2,981
Less: Restricted cash at end of year included in Prepaid expenses and other	(118)	(8)	—
Cash and cash equivalents at end of year	<u>\$ 6,278</u>	<u>\$ 4,015</u>	<u>\$ 2,981</u>
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid for:			
Interest, net	\$ 220	\$ 235	\$ 383
Income taxes, net of refunds	379	368	262

See Financial Notes

McKESSON CORPORATION
FINANCIAL NOTES

1. Significant Accounting Policies

Nature of Operations: McKesson Corporation (“McKesson,” or the “Company,”) is a global provider of healthcare supply chain management solutions, retail pharmacy, community oncology and specialty care, and healthcare information solutions. McKesson partners with pharmaceutical manufacturers, providers, pharmacies, governments, and other organizations in healthcare to help provide the right medicines, medical products, and healthcare services to the right patients at the right time, safely, and cost-effectively. Commencing with the second quarter of 2021, the Company reports its financial results in four reportable segments: U.S. Pharmaceutical, International, Medical-Surgical Solutions, and Prescription Technology Solutions (“RxTS”). All prior segment information has been recast to reflect the Company’s new segment structure and current period presentation. The Company’s equity method investment in Change Healthcare LLC (“Change Healthcare JV”), which was split-off from McKesson in the fourth quarter of 2020, has been included in Other for retrospective periods presented. Refer to Financial Note 22, “Segments of Business,” for more information.

Basis of Presentation: The consolidated financial statements and accompanying notes are prepared in accordance with United States (“U.S.”) generally accepted accounting principles (“GAAP”). The consolidated financial statements of McKesson include the financial statements of all wholly-owned subsidiaries and majority-owned or controlled companies. For those consolidated subsidiaries where the Company’s ownership is less than 100%, the portion of the net income or loss allocable to the noncontrolling interests is reported as “Net income attributable to noncontrolling interests” in the Consolidated Statements of Operations. All significant intercompany balances and transactions have been eliminated in consolidation, including the intercompany portion of transactions with equity method investees.

The Company considers itself to control an entity if it is the majority owner of or has voting control over such entity. The Company also assesses control through means other than voting rights (“variable interest entities” or “VIEs”) and determines which business entity is the primary beneficiary of the VIE. The Company consolidates VIEs when it is determined that it is the primary beneficiary of the VIE. Investments in business entities in which the Company does not have control but has the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method.

Fiscal Period: The Company’s fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references to a particular year shall mean the Company’s fiscal year.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation.

Use of Estimates: The preparation of financial statements in conformity with U.S. GAAP requires that the Company make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual amounts could differ from those estimated amounts. The severity, magnitude and duration, as well as the economic consequences of the coronavirus diseases 2019 (“COVID-19”) pandemic, are uncertain, rapidly changing, and difficult to predict. Therefore, the Company’s accounting estimates and assumptions may change over time in response to COVID-19 and may change materially in future periods.

The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was enacted on March 27, 2020 in the U.S., and includes several provisions related to employment and income taxes, including provisions for the deferral of the employer portion of social security taxes through December 31, 2020. On December 27, 2020, the U.S. government enacted the Consolidated Appropriations Act, 2021, which enhances and expands certain provisions of the CARES Act. These legislative acts are not expected to have a material impact on the Company’s consolidated financial results.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Cash and Cash Equivalents: All highly liquid debt and money market instruments purchased with an original maturity of three months or less at the date of acquisition are included in cash and cash equivalents. Cash equivalents are carried at fair value. Cash equivalents are primarily invested in AAA-rated U.S. government money market funds and overnight deposits with financial institutions. Deposits with financial institutions are primarily denominated in U.S. dollars and the functional currencies of the Company's foreign subsidiaries, including Euro, British pound sterling, and Canadian dollars. Deposits may exceed the amounts insured by the Federal Deposit Insurance Corporation in the U.S. and similar deposit insurance programs in other jurisdictions. The Company mitigates the risk of its short-term investment portfolio by depositing funds with reputable financial institutions and monitoring risk profiles and investment strategies of money market funds.

Restricted Cash: Cash that is subject to legal restrictions or is unavailable for general operating purposes is classified as restricted cash and is included in "Prepaid expenses and other" and "Other non-current assets" in the Consolidated Balance Sheets. As of March 31, 2021, restricted cash primarily consists of funds temporarily held on behalf of unaffiliated medical practice groups related to their COVID-19 business continuity borrowings. The amounts have been designated as restricted cash due to contractual provisions requiring their segregation from all other funds until utilized by the medical practices for a limited list of qualified activities. Corresponding deposit liabilities associated with these funds have been recorded by the Company within "Other accrued liabilities" on the Company's Consolidated Balance Sheet as of March 31, 2021.

Marketable Securities Available-for-Sale: The Company's marketable securities, which are available-for-sale, are carried at fair value and are included in "Prepaid expenses and other" in the Consolidated Balance Sheets. The unrealized gains and losses, net of the related tax effect, computed in marking these securities to market have been reported in stockholders' equity. At March 31, 2021 and 2020, marketable securities were not material. In determining whether an other-than-temporary decline in market value has occurred, the Company considers the duration that, and extent to which, the fair value of the investment is below its cost, the financial condition and future prospects of the issuer or underlying collateral of a security, and its intent and ability to retain the security in order to allow for an anticipated recovery in fair value. Other-than-temporary declines in fair value from amortized cost for available-for-sale equity securities that the Company intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis are charged to other income (expense), net, in the period in which the loss occurs.

Equity Method Investments: Investments in business entities in which the Company does not have control, but has the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method. The Company evaluates its equity method investments for impairment whenever an event or change in circumstances occurs that may have a significant adverse impact on the carrying value of the investment. If a loss in value has occurred that is deemed to be other-than-temporary, an impairment loss is recorded.

Receivables, Net and Allowances for Doubtful Accounts: The Company's receivables are presented net of an allowance for doubtful accounts and primarily consist of trade accounts receivables from customers that result from the sale of goods and services. Receivables, net also includes other receivables, which primarily represent amounts due from suppliers.

We are exposed to credit losses on accounts receivable balances. The Company estimates credit losses by considering historical credit losses, the current economic environment, customer credit ratings or bankruptcies, as well as reasonable and supportable forecasts. Management reviews these factors quarterly to determine if any adjustments are needed to the allowance. Trade accounts receivable represent the majority of the Company's financial assets, for which an allowance for credit losses of \$198 million and \$224 million were included in

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

“Receivables, net” on the Consolidated Balance Sheet as of March 31, 2021 and 2020, respectively. Changes in the allowance were not material for the year ended March 31, 2021.

The following table presents the components of the Company’s receivables as of March 31, 2021 and 2020:

<i>(In millions)</i>	March 31,	
	2021	2020
Customer accounts	\$17,106	\$17,201
Other	2,325	3,014
Total receivables	19,431	20,215
Allowances	(250)	(265)
Receivables, net	<u>\$19,181</u>	<u>\$19,950</u>

Concentrations of Credit Risk and Receivables: The Company’s trade accounts receivable are subject to concentrations of credit risk with customers primarily in its U.S. Pharmaceutical segment. During 2021, sales to the Company’s ten largest customers, including group purchasing organizations (“GPOs”), accounted for approximately 51% of its total consolidated revenues and approximately 32% of total trade accounts receivable at March 31, 2021. Sales to the Company’s largest customer, CVS Health Corporation (“CVS”), accounted for approximately 21% of its total consolidated revenues in 2021 and comprised approximately 19% of total trade accounts receivable at March 31, 2021. As a result, the Company’s sales and credit concentration is significant. The Company has agreements with GPOs, each of which functions as a purchasing agent on behalf of member hospitals, pharmacies and other healthcare providers, as well as with government entities and agencies. The accounts receivables balances are with individual members of the GPOs, and therefore no significant concentration of credit risk exists. A material default in payment, a material reduction in purchases from these or any other large customers, or the loss of a large customer or customer groups could have a material adverse impact on the Company’s financial condition, results of operations, and liquidity. In addition, trade receivables are subject to concentrations of credit risk with customers in the institutional, retail, and healthcare provider sectors, which can be affected by a downturn in the economy and changes in reimbursement policies. This credit risk is mitigated by the size and diversity of the Company’s customer base as well as its geographic dispersion.

Financing Receivables: The Company assesses and monitors credit risk associated with financing receivables, primarily notes receivable, through regular review of its collections experience in determining its allowance for loan losses. On an ongoing basis, the Company also evaluates credit quality of its financing receivables utilizing historical collection rates and write-offs, as well as considering existing economic conditions, to determine if an allowance is required. As of March 31, 2021 and 2020, financing receivables were not material to the Company’s consolidated financial statements. Financing receivables and the related allowances are included in “Receivables, net” and “Other non-current assets” in the Consolidated Balance Sheets.

Inventories: Inventories consist of merchandise held for resale. The Company reports inventories at the lower of cost or net realizable value, except for inventories determined using the last-in, first-out (“LIFO”) method which are valued at the lower of LIFO cost or market. The LIFO method presumes that the most recent inventory purchases are the first items sold and the inventory cost under LIFO approximates market. The majority of the cost of domestic inventories is determined using the LIFO method. The majority of the cost of inventories held in foreign and certain domestic locations is based on the first-in, first-out (“FIFO”) method and weighted-average purchase prices. Rebates, cash discounts, and other incentives received from vendors are recognized in cost of sales upon the sale of the related inventory.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

The LIFO method was used to value approximately 58% and 60% of the Company's inventories at March 31, 2021 and 2020, respectively. If the Company had used the moving average method of inventory valuation, inventories would have been approximately \$406 million and \$444 million higher than the amounts reported at March 31, 2021 and 2020, respectively. These amounts are equivalent to the Company's LIFO reserves. The Company's LIFO valuation amount includes both pharmaceutical and non-pharmaceutical products. The Company recognized LIFO credits of \$38 million, \$252 million, and \$210 million in 2021, 2020, and 2019, respectively, in "Cost of sales" in its Consolidated Statements of Operations. The lower LIFO credits in 2021 compared to 2020 is primarily due to higher brand inflation and delays of branded off-patent to generic drug launches. A LIFO charge is recognized when the net effect of price increases on pharmaceutical and non-pharmaceutical products held in inventory exceeds the impact of price declines, including the effect of branded pharmaceutical products that have lost market exclusivity. A LIFO credit is recognized when the net effect of price declines exceeds the impact of price increases on pharmaceutical and non-pharmaceutical products held in inventory. Excluding LIFO reserves, inventory reserves as of March 31, 2021 and 2020 were \$263 million and \$96 million, respectively. The increase was primarily due to charges in 2021 totaling \$136 million on certain personal protective equipment and other related products due to inventory impairments and excess inventory within our Medical-Surgical Solutions segment. These charges are recorded in "Cost of sales" in the Consolidated Statements of Operations.

The Company believes that the moving average inventory costing method provides a reasonable estimation of the current cost of replacing inventory (i.e., "market"). As such, its LIFO inventory is valued at the lower of LIFO cost or market. As of March 31, 2021 and 2020, inventories at LIFO did not exceed market.

Shipping and Handling Costs: The Company includes costs to pack and deliver inventory to its customers in Selling, distribution, general, and administrative expenses. Shipping and handling costs of \$1.0 billion, \$1.0 billion, and \$951 million were recognized in 2021, 2020, and 2019, respectively.

Held for Sale: Assets and liabilities to be disposed of by sale ("disposal groups") are reclassified into "held for sale" if their carrying amounts are principally expected to be recovered through a sale transaction rather than through continuing use. The reclassification occurs when the disposal group is available for immediate sale and the sale is highly probable. These criteria are generally met when an agreement to sell exists, or management has committed to a plan to sell the assets within one year. Disposal groups are measured at the lower of carrying amount or fair value less costs to sell and are not depreciated or amortized. When the net realizable value of a disposal group increases during a period, a gain can be recognized to the extent that it does not increase the value of the disposal group beyond its original carrying value when the disposal group was reclassified as held for sale. The fair value of a disposal group, less any costs to sell, is assessed each reporting period it remains classified as held for sale and any remeasurement to the lower of carrying value or fair value less costs to sell is reported as an adjustment to the carrying value of the disposal group. Refer to Financial Note 3, "Held for Sale," for more information.

Property, Plant, and Equipment, Net: Property, plant, and equipment, net is stated at historical cost and depreciated under the straight-line method over the estimated useful life of each asset, which ranges from 15 to 30 years for building and improvements and 3 to 15 years for machinery, equipment, and other. Leasehold improvements and property, plant, and equipment, net under finance leases are amortized over their respective useful lives or over the term of the lease, whichever is shorter. Depreciation and amortization begins when an asset is placed in service and ready for its intended use. Repairs and maintenance costs are expensed as incurred. When certain events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable, an impairment assessment may be performed on the recoverability of the carrying amounts.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

The following table presents the components of the Company's property, plant, and equipment, net as of March 31, 2021 and 2020:

<i>(In millions)</i>	March 31,	
	2021	2020
Land	\$ 156	\$ 151
Building and improvements	1,745	1,604
Machinery, equipment, and other	2,512	2,308
Construction in progress	382	131
Total property, plant, and equipment	4,795	4,194
Accumulated depreciation and amortization	(2,214)	(1,829)
Property, plant, and equipment, net	<u>\$ 2,581</u>	<u>\$ 2,365</u>

Total depreciation expense for property, plant, and equipment, net and amortization of finance leases was \$344 million, \$335 million, and \$317 million for the years ended March 31, 2021, 2020, and 2019, respectively.

Goodwill: Goodwill is tested for impairment on an annual basis in the third quarter and more frequently if indicators of potential impairment exist. Impairment testing is conducted at the reporting unit level, which is generally defined as an operating segment or one level below an operating segment (also known as a component), for which discrete financial information is available and segment management regularly reviews the operating results.

The Company applies the goodwill impairment test by comparing the estimated fair value of a reporting unit to its carrying value and recording an impairment charge equal to the amount of excess carrying value above estimated fair value, if any, but not to exceed the amount of goodwill allocated to the reporting unit.

To estimate the fair value of its reporting units, the Company generally uses a combination of the market approach and the income approach. Under the market approach, it estimates fair value by comparing the business to similar businesses, or guideline companies whose securities are actively traded in public markets. Under the income approach, it uses a discounted cash flow ("DCF") model in which cash flows anticipated over future periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate rate that is commensurate with the risk inherent within the reporting unit. Other estimates inherent in both the market and income approaches include long-term growth rates, projected revenues, and earnings and cash flow forecasts for the reporting units. In addition, the Company compares the aggregate of the reporting units' fair values to the Company's market capitalization as a further corroboration of the fair values. Goodwill testing requires a complex series of assumptions and judgments by management in projecting future operating results, selecting guideline companies for comparisons and assessing risks. The use of alternative assumptions and estimates could affect the fair values and change the impairment determinations.

Intangible Assets: Currently all of the Company's intangible assets are subject to amortization and are amortized based on the pattern of their economic consumption or on a straight-line basis over their estimated useful lives, ranging from one to 38 years. The Company reviews intangible assets for impairment at an asset group level whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Determination of recoverability is based on the lowest level of identifiable estimated future undiscounted cash flows resulting from use of the asset and its eventual disposition. Measurement of any impairment loss is based on the excess of the carrying value of the asset group over its estimated fair market value.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Capitalized Software Held for Internal Use: The Company capitalizes costs of software held for internal use during the application development stage of a project and amortizes those costs using the straight-line method over their estimated useful lives, not to exceed 10 years. As of March 31, 2021 and 2020, capitalized software held for internal use was \$513 million and \$400 million, respectively, net of accumulated amortization of \$1.4 billion and \$1.3 billion, respectively, and is included in “Other non-current assets” in the Consolidated Balance Sheets. Costs incurred during the preliminary project and post-implementation stages are expensed as incurred. Amortization expense for capitalized software held for internal use was \$117 million, \$129 million, and \$137 million for the years ended March 31, 2021, 2020, and 2019, respectively.

Insurance Programs: The Company maintains insurance programs through its wholly-owned captive insurance subsidiaries (“Captives”), from which it obtains coverage for catastrophic exposures, including certain exposures arising from the opioid-related claims of governmental entities against the Company, as discussed in more detail in Financial Note 19, “Commitments and Contingent Liabilities,” as well as those risks required to be insured by law or contract. It is the Company’s policy to retain a significant portion of certain losses, including those related to workers’ compensation and comprehensive general, product, and vehicle liability. Provisions for losses expected under insurance programs are recorded based on the Company’s estimate of the aggregate liability for claims incurred as well as for claims incurred but not yet reported. Such estimates utilize certain actuarial assumptions followed in the insurance industry. The Captives receive direct premiums, which are eliminated on consolidation against the Company’s premium costs within Operating Expenses in the Consolidated Statements of Operations.

Revenue Recognition: Revenue is recognized when an entity satisfies a performance obligation by transferring control of a promised good or service to a customer in an amount that reflects the consideration to which the entity expects to be entitled for that good or service.

Revenues generated from the distribution of pharmaceutical and medical products represent the majority of the Company’s revenues. The Company orders product from the manufacturer, receives and carries the product at its central distribution facilities, and delivers the product directly to its customers’ warehouses, hospitals, or retail pharmacies. The distribution business primarily generates revenue from a contract related to a confirmed purchase order with a customer in a distribution arrangement. Revenue is recognized when control of goods is transferred to the customer which occurs upon the Company’s delivery to the customer or upon customer pick-up. The Company also earns revenues from a variety of other sources including its retail, services, and technology businesses. Retail revenues are recognized at the point of sale. Service revenues, including technology service revenues, are recognized when services are rendered. Revenues derived from distribution and retail business at the point of sale, and revenues derived from services represent approximately 98% and 2% of total revenues for each of the years ended March 31, 2021 and 2020, respectively.

Revenues are recorded gross when the Company is the principal in the transaction, has the ability to direct the use of the goods or services prior to transfer to a customer, is responsible for fulfilling the promise to its customer, has latitude in establishing prices, and controls the relationship with the customer. The Company records its revenues net of sales taxes. Revenues are measured based on the amount of consideration that the Company expects to receive, reduced by estimates for return allowances, discounts, and rebates using historical data. Sales returns from customers were approximately \$3.1 billion in each of 2021 and 2020 and \$2.9 billion in 2019. Assets for the right to recover products from customers and the associated refund liabilities for return allowances were not material as of March 31, 2021. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as fulfillment costs. The Company records deferred revenues when payments are received or due in advance of its performance. Deferred revenues are primarily from the Company’s services arrangements and are recognized as revenues over the periods when services are performed.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

The Company had no material contract assets, contract liabilities, or deferred contract costs recorded in its Consolidated Balance Sheets as of March 31, 2021 and 2020. The Company generally expenses costs to obtain a contract as incurred when the amortization period is less than one year.

Supplier Incentives: Fees for services and other incentives received from suppliers, relating to the purchase or distribution of inventory, are considered product discounts and are generally reported as a reduction to cost of sales.

Supplier Reserves: The Company establishes reserves against amounts due from suppliers relating to various fees for services and price and rebate incentives, including deductions taken against payments otherwise due to it. These reserve estimates are established based on judgment after considering the status of current outstanding claims, historical experience with the suppliers, the specific incentive programs, and any other pertinent information available. The Company evaluates the amounts due from suppliers on a continual basis and adjusts the reserve estimates when appropriate based on changes in facts and circumstances. Adjustments to supplier reserves are generally included in cost of sales unless consideration from the vendor is in exchange for distinct goods or services or for pass-through rebate purchases. The ultimate outcome of any outstanding claims may be different than the Company's estimate. The supplier reserves primarily pertain to the Company's U.S. Pharmaceutical segment.

Income Taxes: The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or the tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statements and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Tax benefits from uncertain tax positions are recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The amount recognized is measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon effective settlement.

Interest Expense: Interest expense primarily includes interest for the Company's long-term debt obligations, commercial paper, net interest settlements of interest rate swaps, and the amortization of deferred issuance costs and original issue discounts on debt.

Foreign Currency Translation: The reporting currency of the Company and its subsidiaries is the U.S. dollar. Its foreign subsidiaries generally consider their local currency to be their functional currency. Foreign currency-denominated assets and liabilities of these foreign subsidiaries are translated into U.S. dollars at period-end exchange rates, while revenues and expenses are translated at average exchange rates during the corresponding period and stockholders' equity accounts are primarily translated at historical exchange rates. Foreign currency translation adjustments are included in "Other comprehensive income (loss), net of tax" in the Consolidated Statements of Comprehensive Income (Loss), and the cumulative effect is included in the stockholders' equity section of the Consolidated Balance Sheets. Realized gains and losses from currency exchange transactions are recorded in "Selling, distribution, general, and administrative expenses" in the Consolidated Statements of Operations and were not material to the Company's consolidated results of operations in 2021, 2020, or 2019. The Company releases cumulative translation adjustments from stockholders' equity into earnings as a gain or loss only upon a complete or substantially complete liquidation of a controlling interest in a subsidiary or a group of assets within a foreign entity. It also releases all or a pro rata portion of the cumulative translation adjustments into earnings upon the sale of an equity method investment that is a foreign entity or has a foreign component.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Derivative Financial Instruments: Derivative financial instruments are used principally in the management of foreign currency exchange and interest rate exposures and are recorded in the Consolidated Balance Sheets at fair value. If a derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. The Company uses foreign currency-denominated notes and cross-currency swaps to hedge a portion of its net investment in its foreign subsidiaries. It uses cash flow hedges primarily to reduce the effects of foreign currency exchange rate risk related to intercompany loans denominated in non-functional currencies. If the financial instrument is designated as a cash flow hedge or net investment hedge, the effective portions of changes in the fair value of the derivative are included in “Other comprehensive income (loss), net of tax” in the Consolidated Statements of Comprehensive Income (Loss), and the cumulative effect is included in the stockholders’ equity section of the Consolidated Balance Sheets. The cumulative changes in fair value are reclassified to the same line as the hedged item in the Consolidated Statements of Operations when the hedged item affects earnings. The Company evaluates hedge effectiveness at inception and on an ongoing basis, and ineffective portions of changes in the fair value of cash flow hedges and net investment hedges are recognized in earnings following the date when ineffectiveness was identified. Derivative instruments not designated as hedges are marked-to-market at the end of each accounting period with the change included in earnings.

Comprehensive Income (Loss): Comprehensive income (loss) consists of two components: net income (loss) and other comprehensive income. Other comprehensive income refers to revenue, expenses, and gains and losses that under GAAP are recorded as an element of stockholders’ equity but are excluded from earnings. The Company’s other comprehensive income primarily consists of foreign currency translation adjustments from those subsidiaries where the local currency is the functional currency including gains and losses on net investment hedges, unrealized gains and losses on cash flow hedges, and unrealized gains and losses on retirement-related benefit plans.

Noncontrolling Interests and Redeemable Noncontrolling Interests: Noncontrolling interests represent the portion of profit or loss, net assets, and comprehensive income that is not allocable to McKesson Corporation. Net income attributable to noncontrolling interests includes recurring compensation that McKesson is obligated to pay to the noncontrolling shareholders of McKesson Europe AG (“McKesson Europe”), formerly known as Celesio AG, under the domination and profit and loss transfer agreement. Net income attributable to noncontrolling interests also includes third-party equity interests in the Company’s consolidated entities including Vantage Oncology Holdings, LLC (“Vantage”) and ClarusONE Sourcing Services LLP (“ClarusONE”), which was established between McKesson and Walmart, Inc in 2017. Noncontrolling interests with redemption features, such as put rights, that are not solely within the Company’s control are considered redeemable noncontrolling interests. Redeemable noncontrolling interests are presented outside of stockholders’ equity in the Company’s Consolidated Balance Sheets. Refer to Financial Note 9, “Redeemable Noncontrolling Interests and Noncontrolling Interests,” for more information.

Share-Based Compensation: The Company accounts for all share-based compensation transactions at fair value. The share-based compensation expense, for the portion of the awards that is ultimately expected to vest, is recognized on a straight-line basis over the requisite service period. The share-based compensation expense recognized is classified in the Consolidated Statements of Operations in the same manner as cash compensation paid to the Company’s employees.

Loss Contingencies: The Company is subject to various claims, including, but not limited to, claims with customers and vendors, pending and potential legal actions for damages, investigations relating to governmental laws and regulations, and other matters arising out of the normal conduct of its business. When a loss is considered probable and reasonably estimable, the Company records a liability in the amount of its best estimate

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

for the ultimate loss. However, the likelihood of a loss with respect to a particular contingency is often difficult to predict and determining a meaningful estimate of the loss or a range of loss may not be practicable based on the information available and the potential effect of future events and decisions by third parties that will determine the ultimate resolution of the contingency. Moreover, it is not uncommon for such matters to be resolved over many years, during which time relevant developments and new information must be reevaluated at least quarterly to determine both the likelihood of potential loss and whether it is possible to reasonably estimate the loss or a range of possible loss. When a material loss is reasonably possible or probable, but a reasonable estimate cannot be made, disclosure of the proceeding is provided. The Company recognizes legal fees as incurred when the legal services are provided.

The Company reviews all contingencies at least quarterly to determine whether the likelihood of loss has changed and to assess whether a reasonable estimate of the loss or a range of the loss can be made. As discussed above, development of a meaningful estimate of loss or a range of potential loss is complex when the outcome is directly dependent on negotiations with or decisions by third parties, such as regulatory agencies, the court system, and other interested parties. Refer to Financial Note 19, “Commitments and Contingent Liabilities,” for additional information related to ongoing controlled substances claims to which the Company is a party.

Restructuring Charges: Employee severance costs are generally recognized when payments are probable and amounts are reasonably estimable. Costs related to contracts without future benefit or contract termination are recognized at the earlier of the contract termination or the cease-use dates. Other exit-related costs are recognized as incurred.

Business Combinations: The Company accounts for business combinations using the acquisition method of accounting whereby the identifiable assets and liabilities of the acquired business, as well as any noncontrolling interest in the acquired business, are recorded at their estimated fair values as of the date that the Company obtains control of the acquired business. Any purchase consideration in excess of the estimated fair values of the net assets acquired is recorded as goodwill. Acquisition-related expenses and related restructuring costs are expensed as incurred.

Several valuation methods may be used to determine the fair value of assets acquired and liabilities assumed. For intangible assets, the Company typically uses a method that is a form or variation of the income approach, whereby a forecast of future cash flows attributable to the asset are discounted to present value using a risk-adjusted discount rate. Some of the more significant estimates and assumptions inherent in the income approach include the amount and timing of projected future cash flows, the discount rate selected to measure the risks inherent in the future cash flows, and the assessment of the asset’s expected useful life.

Recently Adopted Accounting Pronouncements

In the first quarter of 2021, the Company prospectively adopted Accounting Standard Update (“ASU”) 2018-15, *Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs in a cloud computing arrangement that has a software license. As a result, the Company began capitalizing eligible implementation costs for such contracts and recognizing the expense over the service period. The adoption of this amended guidance did not have a material impact on the Company’s consolidated financial statements or disclosures.

In the first quarter of 2021, the Company retrospectively adopted ASU 2018-14, *Compensation — Retirement Benefits — Defined Benefit Plans*, which requires the Company to disclose the weighted-average

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

interest crediting rates for cash balance plans and other plans with promised interest crediting rates, and an explanation of reasons for significant gains and losses related to changes in the benefit obligation for the period. The amended guidance also requires the Company to remove disclosures on the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit costs over the next fiscal year. The adoption of this amended guidance resulted in changes in disclosures but did not have an impact on the Company's Consolidated Statements of Operations, Comprehensive Income (Loss), Balance Sheets, or Cash Flows.

In the first quarter of 2021, the Company adopted ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement*, to remove, modify, and add disclosure requirements on fair value measurements. Certain requirements were applied prospectively while other changes were applied retrospectively on the effective date. The amended guidance removes disclosure requirements for transfers between Level 1 and Level 2 measurements and valuation processes for Level 3 measurements, but adds new disclosure requirements including changes in unrealized gains or losses in other comprehensive income related to recurring Level 3 measurements and requirements to disclose the range, and weighted-average used to develop significant unobservable inputs for Level 3 fair value measurements. The adoption of this amended guidance resulted in changes in disclosures but did not have an impact on the Company's Consolidated Statements of Operations, Comprehensive Income (Loss), Balance Sheets, or Cash Flows.

In the first quarter of 2021, the Company adopted ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which changed the impairment model for most financial assets from one based on current losses to a forward-looking model based on expected losses. The forward-looking model requires the Company to consider historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount in estimating credit losses. The amended guidance requires financial assets that are measured at amortized cost be presented at the net amount expected to be collected. An allowance for credit losses is established as a valuation account that is deducted from the amortized cost basis of financial assets. The guidance also requires enhanced disclosures. This guidance was adopted on a modified retrospective basis and did not have a material impact on the Company's consolidated financial statements or disclosures. Upon adoption of the amended guidance in the first quarter of 2021, the Company recorded a cumulative-effect adjustment of \$13 million to the opening balance of retained earnings, primarily as a result of adjustments to allowances for trade accounts receivable.

Recently Issued Accounting Pronouncements Not Yet Adopted

In December 2019, ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, was issued with the intent to simplify various aspects related to accounting for income taxes. The guidance eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences. The guidance also simplifies and clarifies certain other aspects of accounting for income taxes. The guidance is effective for the Company in the first quarter of 2022 and early adoption is permitted. The adoption of this amended guidance is not expected to have a material impact on the Company's consolidated financial statements or disclosures.

2. Investment in Change Healthcare Joint Venture

In the fourth quarter of 2017, the Company contributed the majority of its McKesson Technology Solutions businesses to form a joint venture, the Change Healthcare JV, under a contribution agreement between

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

McKesson and Change Healthcare Inc. (“Change”) and others, including shareholders of Change. In exchange for the contribution, the Company initially owned approximately 70% of the joint venture, with the remaining equity ownership of approximately 30% held by Change. The Change Healthcare JV was jointly governed by McKesson and shareholders of Change.

On June 27, 2019, common stock and certain other securities of Change began trading on the NASDAQ (“IPO”). Change was a holding company and did not own any material assets or have any operations other than its interest in the Change Healthcare JV. On July 1, 2019, upon the completion of its IPO, Change received net cash proceeds of approximately \$888 million. Change contributed the proceeds of \$609 million from its offering of common stock to the Change Healthcare JV in exchange for additional membership interests of the Change Healthcare JV (“LLC Units”) at the equivalent of its offering price of \$13 per share. The proceeds of \$279 million from the concurrent offering of other securities were used by Change to acquire certain securities of the Change Healthcare JV that substantially mirrored the terms of other securities included in the offering by Change. As a result, McKesson’s equity interest in the Change Healthcare JV was diluted from approximately 70% to approximately 58.5% while Change owned approximately 41.5% of the outstanding LLC Units. Accordingly, in the second quarter of 2020, the Company recognized a dilution loss of \$246 million, primarily representing the difference between its proportionate share of the IPO proceeds and the dilution effect on the investment’s carrying value. The Company’s proportionate share of income or loss from this investment was subsequently reduced as immaterial settlements of stock option exercises occurred after the IPO. These amounts were included in “Equity earnings and charges from investment in Change Healthcare Joint Venture” in the Company’s Consolidated Statements of Operations for the year ended March 31, 2020.

In the second quarter of 2020, the Company recorded an other-than-temporary impairment (“OTTI”) charge of \$1.2 billion to its investment in the Change Healthcare JV, representing the difference between the carrying value of the Company’s investment and the fair value derived from the corresponding closing price of Change’s common stock at September 30, 2019. This charge was included in “Equity earnings and charges from investment in Change Healthcare Joint Venture” in the Company’s Consolidated Statements of Operations for the year ended March 31, 2020.

Separation of the Change Healthcare JV

On March 10, 2020, the Company completed the previously announced separation of its interest in the Change Healthcare JV. The separation was affected through the split-off of PF2 SpinCo, Inc. (“SpinCo”), a wholly-owned subsidiary of the Company that held all of the Company’s interest in the Change Healthcare JV, to certain of the Company’s stockholders through an exchange offer (“Split-off”), followed by the merger of SpinCo with and into Change, with Change surviving the merger (“Merger”).

In connection with the Split-off, on March 9, 2020, the Company distributed all 176.0 million outstanding shares of common stock of SpinCo to participating holders of the Company’s common stock in exchange for 15.4 million shares of McKesson common stock which now are held as treasury stock on the Company’s Consolidated Balance Sheets. Refer to Financial Note 20, “Stockholders’ Equity,” for more information. Following consummation of the exchange offer, on March 10, 2020, SpinCo was merged with and into Change Healthcare, and each share of SpinCo common stock converted into one share of Change common stock, par value \$0.001 per share, with cash being paid in lieu of fractional shares of Change common stock. The Split-off and the Merger are intended to be generally tax-free transactions for U.S. federal income tax purposes. Following the Split-off, the Company does not beneficially own any of Change’s outstanding securities. In the fourth quarter of 2020, the Company recognized a net gain of \$414 million related to the transaction which is included under the caption “Equity earnings and charges from investment in Change Healthcare Joint Venture” in the

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Company's Consolidated Statements of Operations for the year ended March 31, 2020. The net gain was calculated as follows:

(In millions, except per share data)

Fair value of McKesson common stock accepted (15.4 million shares at \$131.97 per share on March 9, 2020)	\$ 2,036
Investment in the Change Healthcare JV at exchange date	(2,096)
Reversal of deferred tax liability	521
Release of accumulated other comprehensive attributable to the joint venture	(24)
Less: Transaction costs incurred	(23)
Net gain on split-off of the Change Healthcare JV	<u>\$ 414</u>

Equity Method Investment in the Change Healthcare Joint Venture

The Company's investment in the joint venture was accounted for using the equity method of accounting on a one-month reporting lag. The Company's accounting policy has been to disclose any intervening events of the joint venture in the lag period that could materially affect its consolidated financial statements. Effective April 1, 2019, the Change Healthcare JV adopted the amended revenue recognition guidance and, in the first quarter of 2020, the Company recorded its proportionate share of the joint venture's adoption impact of the amended revenue recognition guidance of approximately \$80 million, net of tax, in the Company's opening retained earnings.

The Company recorded its proportionate share of loss from its investment in the Change Healthcare JV of \$119 million and \$194 million in 2020 and 2019, respectively. The Company's proportionate share of income or loss from this investment includes transaction and integration expenses incurred by the Change Healthcare JV and basis differences between the joint venture and McKesson including amortization of fair value adjustments primarily representing incremental intangible amortization and removal of profit associated with the recognition of deferred revenue. These amounts were recorded under the caption "Equity earnings and charges from investment in Change Healthcare Joint Venture" in the Company's Consolidated Statements of Operations.

Related Party Transactions

In connection with the formation of the Change Healthcare JV, McKesson, the Change Healthcare JV and certain shareholders of Change entered into various ancillary agreements, including transition services agreements ("TSA"), a transaction and advisory fee agreement ("Advisory Agreement"), a tax receivable agreement ("TRA") and certain other agreements. Fees incurred or earned from the Advisory Agreement were not material for 2020 and 2019. Fees incurred or earned from the TSA were not material in 2021 and were \$22 million in 2020 and \$60 million in 2019. The Advisory Agreement was terminated in 2020.

In 2019, the Company renegotiated the terms of the TRA which resulted in the extinguishment and derecognition of the \$90 million non-current liability payable to the shareholders of Change. In exchange for the shareholders of Change agreeing to extinguish the liability, the Company agreed to an allocation of certain tax amortization that had the effect of reducing the amount of a distribution from the Change Healthcare JV that would otherwise have been required to be made to the shareholders of Change. As a result of the renegotiation, McKesson was relieved from any potential future obligations associated with the non-current liability and recognized a credit of \$90 million in "Selling, distribution, general, and administrative expenses" in its Consolidated Statement of Operations in 2019. At March 31, 2021 and 2020, the Company had no outstanding payable balance to the shareholders of Change under the TRA.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Under the agreement executed in 2019 between the Change Healthcare JV, McKesson, Change, and certain subsidiaries of the Change Healthcare JV, McKesson had the ability to adjust the manner in which certain depreciation or amortization deductions are allocated among Change and McKesson. McKesson exercised its right under the agreement and allocated certain depreciation and amortization deductions to Change for the tax years ended March 31, 2020 and 2019.

After McKesson's separation of its interest in the Change Healthcare JV, the aforementioned TRA agreement requires the Change Healthcare JV to pay McKesson 85% of the net cash tax savings realized, or deemed to be realized, by Change resulting from the depreciation or amortization allocated to Change by McKesson. The receipt of any payments from the Change Healthcare JV under the TRA is dependent upon Change benefiting from this depreciation or amortization in future tax return filings. This creates uncertainty over the amount, timing, and probability of the gain recognized. As such, the Company accounts for the TRA as a gain contingency, with no receivable recognized as of March 31, 2021 or 2020.

In conjunction with the separation transaction in the fourth quarter of 2020, the Company recorded a reversal of the deferred tax liability related to its investment. Under the agreement with the Change Healthcare JV, McKesson, Change, and certain subsidiaries of the Change Healthcare JV, there may be changes in future periods to the amount reversed as the relevant periods are audited by tax authorities. Any such change is not expected to have a material impact on the Company's consolidated financial statements.

3. Held for Sale

Assets and liabilities that have met the classification as held for sale were \$12 million and \$9 million, respectively, as of March 31, 2021 and \$906 million and \$683 million, respectively, as of March 31, 2020. The amounts at March 31, 2020 primarily consisted of the majority of the Company's German pharmaceutical wholesale business as described below. This disposal group had been recorded as assets and liabilities held for sale since the third quarter of 2020 through its contribution to a joint venture in the third quarter of 2021. Based on its analysis, the Company determined that the disposal groups classified as held for sale do not meet the criteria for classification as discontinued operations and are not considered to be significant disposals based on its quantitative and qualitative evaluation.

German Wholesale Joint Venture

On November 1, 2020, the Company completed its previously announced transaction with Walgreens Boots Alliance ("WBA") whereby the majority of its German pharmaceutical wholesale business was contributed to a newly formed joint venture in which McKesson has a 30% noncontrolling interest.

Consideration received included a receivable amount of \$41 million, primarily related to working capital and net debt adjustments from WBA, and the 30% interest in the newly formed joint venture. At the transaction date, the carrying value of the equity investment in the joint venture was recorded at its fair value, which was measured using inputs that fell within Level 3 of the fair value hierarchy. The carrying value of the investment in the joint venture was nil as of March 31, 2021. The Company accounts for its interest in the joint venture as an equity method investment within the International segment. The joint venture also assumed a note payable to the Company in the amount of approximately \$291 million as of the transaction date, which was paid to the Company in the third quarter of 2021.

In conjunction with the contribution, the Company recorded losses of \$58 million and \$275 million (pre-tax and after-tax), respectively, in the years ended March 31, 2021 and 2020, which includes adjustments to

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

remeasure the assets and liabilities held for sale to fair value less costs to sell. These charges were included within “Operating expenses” in the Consolidated Statements of Operations. The Company’s measurement of the fair value of the disposal group was based on estimates of total consideration to be received by the Company as outlined in the contribution agreement between the Company and WBA. As a result of finalization of working capital amounts contributed and other adjustments, the Company may record additional gains or losses in future periods; however, these adjustments are not expected to have a material impact on the Company’s consolidated financial statements.

Following the completion of the transaction on November 1, 2020, there were no assets or liabilities of the German pharmaceutical wholesale joint venture classified as held for sale on the Company’s Consolidated Balance Sheet. The total assets and liabilities of the German pharmaceutical wholesale joint venture that were classified as held for sale on the Company’s Consolidated Balance Sheet as of March 31, 2020, were as follows:

<i>(In millions)</i>	March 31, 2020
Assets	
Current Assets	
Receivables, net	\$ 548
Inventories, net	478
Long-term assets	88
Remeasurement of assets of business held for sale to fair value less cost to sell ⁽¹⁾	(272)
Total Assets held for sale	<u>\$ 842</u>
Liabilities	
Current Liabilities	
Drafts and accounts payable	\$ 450
Other accrued liabilities	40
Long-term liabilities	166
Total Liabilities held for sale	<u>\$ 656</u>

(1) Includes the effect of approximately \$3 million of favorable cumulative foreign currency translation adjustment.

4. Restructuring, Impairment, and Related Charges

The Company recorded restructuring, impairment, and related charges of \$334 million, \$268 million and \$597 million in 2021, 2020, and 2019, respectively. These charges are included in “Restructuring, impairment, and related charges, net” in the Consolidated Statements of Operations. In addition, charges related to restructuring initiatives are included in “Cost of sales” in the Consolidated Statements of Operations and were not material for the years ended 2021, 2020, and 2019.

Restructuring Initiatives

During the first quarter of 2022, the Company approved an initiative to increase operational efficiencies and flexibility by transitioning to a partial remote work model for certain employees. This initiative primarily includes the rationalization of its office space in North America. Where the Company determines to cease using

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

office space, it plans to exit the portion of the facility no longer used. It also may retain and repurpose certain other office locations. The Company expects to incur total charges of approximately \$180 million to \$280 million for this initiative, consisting primarily of exit related costs, accelerated depreciation and amortization of long-lived assets, and asset impairments. This initiative is expected to be completed in 2022.

During the first quarter of 2021, the Company committed to an initiative within the United Kingdom (“U.K.”), which is included in the Company’s International segment, to further drive transformational changes in technologies and business processes, operational efficiencies, and cost savings. The initiative includes reducing the number of retail pharmacy stores, decommissioning obsolete technologies and processes, reorganizing and consolidating certain business operations, and related headcount reductions. Under this initiative, the Company expects to incur total charges of approximately \$85 million to \$90 million. The Company recorded charges of \$57 million in 2021, primarily related to asset impairments and accelerated depreciation expense as well as employee severance and other employee-related costs. The initiative is expected to be substantially complete in 2022 and estimated remaining charges primarily consist of accelerated amortization of long-lived assets, facility and other exit costs, and employee-related costs.

During the fourth quarter of 2019, the Company committed to certain programs to continue its operating model and cost optimization efforts. The Company continues to implement centralization of certain functions and outsourcing through an expanded arrangement with a third-party vendor to achieve operational efficiency. The programs also include reorganization and consolidation of business operations, related headcount reductions, the further closures of retail pharmacy stores in Europe, and closures of other facilities. The Company recorded charges of \$62 million, \$72 million, and \$163 million in 2021, 2020, and 2019, respectively, consisting primarily of employee severance, accelerated depreciation expense, and project consulting fees. This initiative was substantially complete in 2021 and remaining costs the Company expects to record under this initiative are not material.

As previously announced on November 30, 2018, the Company relocated its corporate headquarters, effective April 1, 2019, from San Francisco, California to Irving, Texas to improve efficiency, collaboration, and cost competitiveness. As a result, the Company recorded charges of \$28 million, \$44 million, and \$33 million in 2021, 2020, and 2019, respectively, consisting primarily of employee retention expenses, severance, long-lived asset impairments, and accelerated depreciation. The relocation was substantially complete in January 2021 and remaining costs the Company expects to record under this initiative, primarily relating to lease costs, are not material.

In the second quarter of 2018, the Company committed to a restructuring plan, which primarily consisted of the closures of underperforming retail pharmacy stores in the U.K., included in its International segment, and a reduction in workforce. In 2019, the Company recorded charges of \$18 million, consisting primarily of employee severance and lease exit costs, with \$92 million of total charges recorded through the end of 2019. The plan was substantially completed in 2020 and additional charges were not material.

On April 25, 2018, the Company announced a strategic growth initiative intended to drive long-term incremental profit growth and to increase operational efficiency. The initiative consisted of multiple growth priorities and plans to optimize the Company’s operating models and cost structures primarily through centralization, cost management, and outsourcing of certain administrative functions. As part of the growth initiative, the Company committed to implement certain actions including a reduction in workforce, facility consolidation, and store closures. This set of initiatives was substantially complete by the end of 2020 and charges in 2021 were not material. The Company recorded charges of \$15 million and \$135 million in 2020 and 2019, respectively.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Fiscal 2021

Restructuring, impairment, and related charges, net for the year ended March 31, 2021 consisted of the following:

<i>(In millions)</i>	Year Ended March 31, 2021					
	U.S. Pharmaceutical	International ⁽¹⁾	Medical- Surgical Solutions	Prescription Technology Solutions	Corporate ⁽²⁾	Total
Severance and employee-related costs, net	\$ 10	\$22	\$(1)	\$ 4	\$ 69	\$104
Exit and other-related costs ⁽³⁾	11	17	4	—	27	59
Asset impairments and accelerated depreciation	—	46	1	—	9	56
Total	<u>\$ 21</u>	<u>\$85</u>	<u>\$ 4</u>	<u>\$ 4</u>	<u>\$105</u>	<u>\$219</u>

- (1) Primarily represents costs associated with the operating model and cost optimization efforts described above.
- (2) Represents costs associated with the operating model cost optimization efforts and the relocation of the Company's headquarters described above in addition to various other initiatives.
- (3) Exit and other-related costs primarily include project consulting fees.

Fiscal 2020

Restructuring, impairment, and related charges, net for the year ended March 31, 2020 consisted of the following:

<i>(In millions)</i>	Year Ended March 31, 2020					
	U.S. Pharmaceutical ⁽¹⁾	International ⁽²⁾	Medical- Surgical Solutions ⁽³⁾	Prescription Technology Solutions	Corporate ⁽⁴⁾	Total
Severance and employee-related costs, net	\$12	\$ 2	\$ 4	\$ (1)	\$30	\$ 47
Exit and other-related costs ⁽⁵⁾	1	13	19	—	46	79
Asset impairments and accelerated depreciation	10	6	1	—	13	30
Total	<u>\$23</u>	<u>\$21</u>	<u>\$24</u>	<u>\$ (1)</u>	<u>\$89</u>	<u>\$156</u>

- (1) Represents costs associated with dispositions and costs related to the relocation of the Company's corporate headquarters described above.
- (2) Primarily represents costs associated with the operating model and cost optimization efforts described above.
- (3) Primarily represents costs associated with the growth initiative described above.
- (4) Represents costs associated with the growth initiative, operating model cost optimization efforts, and with the relocation of the Company's corporate headquarters described above.
- (5) Exit and other-related costs primarily include project consulting fees.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Fiscal 2019

Restructuring, impairment, and related charges, net for the year ended March 31, 2019 consisted of the following:

<i>(In millions)</i>	Year Ended March 31, 2019					
	U.S. Pharmaceutical ⁽¹⁾	International ⁽²⁾	Medical- Surgical Solutions ⁽³⁾	Prescription Technology Solutions	Corporate ⁽⁴⁾	Total
Severance and employee-related costs, net	\$46	\$ 51	\$18	\$ 3	\$36	\$154
Exit and other-related costs ⁽⁵⁾	9	83	20	—	52	164
Asset impairments and accelerated depreciation	6	24	3	—	1	34
Total	<u>\$61</u>	<u>\$158</u>	<u>\$41</u>	<u>\$ 3</u>	<u>\$89</u>	<u>\$352</u>

- (1) Represents costs associated with the operating model cost optimization efforts and growth initiative described above.
- (2) Primarily represents costs associated with the operating model cost optimization efforts and U.K. restructuring initiative focusing on underperforming retail pharmacy stores described above.
- (3) Primarily represents costs associated with the growth initiative described above.
- (4) Represents costs associated with operating model cost optimization efforts and with the relocation of the Company's corporate headquarters described above.
- (5) Exit and other-related costs primarily include lease and other contract exit costs associated with closures of facilities and retail pharmacy stores as well as project consulting fees.

The following table summarizes the activity related to the restructuring liabilities associated with the Company's restructuring initiatives for the years ended March 31, 2021 and 2020:

<i>(In millions)</i>	U.S. Pharmaceutical	International	Medical- Surgical Solutions	Prescription Technology Solutions	Corporate	Total
Balance, March 31, 2019	\$ 35	\$129	\$ 26	\$ 3	\$ 44	\$ 237
Restructuring, impairment, and related charges	23	21	24	(1)	89	156
Non-cash charges	(10)	(6)	(1)	—	(13)	(30)
Cash payments	(15)	(45)	(26)	(1)	(61)	(148)
Other	(4)	(33)	(1)	—	(20)	(58)
Balance, March 31, 2020 ⁽¹⁾	29	66	22	1	39	157
Restructuring, impairment, and related charges	21	85	4	4	105	219
Non-cash charges	—	(46)	(1)	—	(9)	(56)
Cash payments	(31)	(31)	(21)	(1)	(75)	(159)
Other	—	(8)	(1)	—	(1)	(10)
Balance, March 31, 2021 ⁽²⁾	<u>\$ 19</u>	<u>\$ 66</u>	<u>\$ 3</u>	<u>\$ 4</u>	<u>\$ 59</u>	<u>\$ 151</u>

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

- (1) As of March 31, 2020, the total reserve balance was \$157 million of which \$118 million was recorded in Other accrued liabilities and \$39 million was recorded in Other non-current liabilities.
- (2) As of March 31, 2021, the total reserve balance was \$151 million of which \$99 million was recorded in Other accrued liabilities and \$52 million was recorded in Other non-current liabilities.

Long-Lived Asset Impairments

Fiscal 2021

In 2021, the Company recognized charges of \$115 million to impair certain long-lived assets within the Company's International segment. These charges primarily related to long-lived assets associated with the Company's retail pharmacy businesses in Canada and Europe and were due to declines in estimated future cash flows partially driven by a revised outlook regarding the impacts of COVID-19. The Company used both an income approach (a DCF method) and a market approach to estimate the fair value of the long-lived assets.

Fiscal 2020

In 2020, the Company recognized charges of \$82 million to impair certain long-lived and intangible assets for its retail pharmacy business in Europe within the Company's International segment. These charges related primarily to intangible assets associated with pharmacy licenses within the U.K retail business due to a decline in estimated future cash flows driven by additional U.K. government reimbursement reductions communicated in the third quarter of 2020. The Company used a combination of an income approach (a DCF method) and a market approach to estimate the fair value of the long-lived and intangible assets.

In 2020, the Company performed an interim impairment test of long-lived and intangible assets for its Rexall Health retail business, within the Company's International segment, due to the decline in the estimated future cash flows primarily driven by lower than expected growth in both prescription volume and sales of non-prescription goods. As a result, the Company recognized a charge of \$30 million to impair certain long-lived and intangible assets, primarily customer relationships. The Company utilized an income approach (a DCF method) for estimating the fair value of the long-lived and intangible assets.

Fiscal 2019

In 2019, the Company recognized charges of \$210 million to impair certain long-lived assets (primarily pharmacy licenses) for its U.K. retail business, within the Company's International segment, primarily driven by government reimbursement reductions and competitive pressures in the U.K. The Company used an income approach (a DCF method) or a combination of an income approach and a market approach to estimate the fair value of the long-lived assets.

In 2019, the Company recorded charges of \$35 million to impair certain intangible assets (primarily customer relationships) for its Rexall Health retail business within the Company's International segment. The impairments were primarily the result of the decline in estimated future cash flows for this business. The estimated cash flow projections were negatively affected by a lower projected overall growth rate from the ongoing impact of government regulations in 2019. The Company utilized an income approach (a DCF method) for estimating the fair value of long-lived assets.

The fair value of the long-lived and intangible assets described above is considered a Level 3 fair value measurement due to the significance of unobservable inputs developed using company-specific information. Refer to Financial Note 17, "Fair Value Measurements," for more information on nonrecurring fair value measurements.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

5. Business Acquisitions and Divestitures

During 2021 and 2020, the Company did not complete any material acquisitions. During 2021, 2020, and 2019, the Company did not complete any material divestitures other than the contribution of the majority of its German wholesale business to a newly formed joint venture, as described in Financial Note 3, “Held for Sale,” in 2021 and the separation of the Change Healthcare JV, as described in Financial Note 2, “Investment in Change Healthcare Joint Venture,” in 2020.

Acquisitions

Goodwill recognized for business acquisitions is generally not expected to be deductible for tax purposes. However, if the assets of another company are acquired, the goodwill may be deductible for tax purposes.

2019 Acquisition

Medical Specialties Distributors LLC (“MSD”)

On June 1, 2018, the Company completed its acquisition of MSD for the net purchase consideration of \$784 million, which was funded from cash on hand. MSD is a leading national distributor of infusion and medical-surgical supplies as well as a provider of biomedical services to alternate site and home health providers. The financial results of MSD have been included in the Company’s Consolidated Statements of Operations within its Medical-Surgical Solutions segment since the acquisition date.

The fair value of assets acquired and liabilities assumed as of the acquisition date were finalized upon completion of the measurement period in the first quarter of 2020. The final purchase price allocation included acquired identifiable intangibles of \$326 million primarily representing customer relationships with a weighted-average life of 18 years.

The following table summarizes the final recording of the fair value of the assets acquired and liabilities assumed for this acquisition as of the acquisition date, including immaterial adjustments made during the measurement period:

<i>(In millions)</i>	Amounts Recognized as of the Acquisition Date ⁽¹⁾
Receivables	\$112
Other current assets, net of cash and cash equivalents acquired	71
Goodwill	388
Intangible assets	326
Other long-term assets	56
Current liabilities	(72)
Other long-term liabilities	(97)
Net assets acquired, net of cash and cash equivalents	<u>\$ 784</u>

(1) Final amounts as of May 31, 2019.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Other Acquisitions

CoverMyMeds LLC (“CMM”)

On April 3, 2017, the Company completed its acquisition of CMM for the net purchase consideration of \$1.3 billion, which was funded from cash on hand. Pursuant to the agreement, McKesson’s purchase consideration was subject to an additional \$160 million of contingent consideration based on CMM’s financial performance for 2018 and 2019. Pursuant to the agreement, the Company paid additional contingent consideration of \$69 million and \$68 million in May 2019 and May 2018, respectively. As of March 31, 2020, the related liability was nil.

During the three years presented, the Company also completed a number of other de minimis acquisitions within its operating segments. Financial results for the Company’s business acquisitions have been included in the Company’s consolidated financial statements since their respective acquisition dates. Purchase prices for business acquisitions have been allocated based on estimated fair values at the respective acquisition dates.

6. Share-Based Compensation

The Company provides share-based compensation to its employees, officers, and non-employee directors, including restricted stock units (“RSUs”), performance-based stock units (“PSUs”, formerly referred to as total shareholder return units or “TSRUs”), performance-based restricted stock units (“PeRSUs”), stock options, and an employee stock purchase plan (“ESPP”) (collectively, “share-based awards”). Most of the share-based awards are granted in the first quarter of each fiscal year.

Compensation expense for the share-based awards is recognized for the portion of awards ultimately expected to vest. The Company estimates the number of share-based awards that will ultimately vest primarily based on historical experience. The estimated forfeiture rate established upon grant is re-assessed throughout the requisite service period and is adjusted when actual forfeitures occur. The actual forfeitures in future reporting periods could be higher or lower than current estimates.

Compensation expense is classified in the Consolidated Statements of Operations in the same manner as cash compensation paid to the Company’s employees.

Impact on Net Income

The components of share-based compensation expense and related tax benefits are as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2021	2020	2019
Restricted stock unit awards ⁽¹⁾	\$137	\$104	\$ 75
Stock options	4	7	12
Employee stock purchase plan	10	8	8
Share-based compensation expense	151	119	95
Tax benefit for share-based compensation expense ⁽²⁾	(23)	(18)	(12)
Share-based compensation expense, net of tax	<u>\$128</u>	<u>\$101</u>	<u>\$ 83</u>

(1) Includes compensation expense recognized for RSUs, PeRSUs, and PSUs.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

- (2) Income tax benefit is computed using the tax rates of applicable tax jurisdictions. Additionally, a portion of compensation expense is not tax-deductible. Income tax expense for 2021, 2020, and 2019 included discrete income tax expense of \$2 million, \$2 million, and \$4 million, respectively.

Stock Plans

In July 2013, the Company's stockholders approved the 2013 Stock Plan to replace the 2005 Stock Plan. Under these stock plans, the Company may issue restricted stock, RSUs, PSUs, PeRSUs, stock options, and other share-based awards to selected employees, officers, and non-employee directors. The 2013 Stock Plan reserves 30 million shares plus unused reserved shares under the 2005 Stock Plan. As of March 31, 2021, 20 million shares remain available for future grant under the 2013 Stock Plan.

Restricted Stock Unit Awards

RSUs entitle the holder to receive a specified number of shares of the Company's common stock which vest over a period of generally three to four years as determined by the Compensation Committee at the time of grant. The fair value of the award is determined based on the market price of the Company's common stock on the grant date and the related compensation expense is recognized over the vesting period on a straight-line basis.

Non-employee directors receive an annual grant of RSUs, which vest immediately and are expensed upon grant. The director may elect to receive the underlying shares immediately or defer receipt of the shares if they meet director stock ownership guidelines. The shares will be automatically deferred for those directors who do not meet the director stock ownership guidelines. At March 31, 2021, approximately 82,000 RSUs for the Company's directors are vested.

PSUs are conditional upon the attainment of market and performance objectives over a specified period. The number of vested PSUs is assessed at the end of a three-year performance period upon attainment of meeting certain earnings per share targets, average return on invested capital, and for certain participants, total shareholder return relative to a peer group of companies and, for special PSUs granted in 2019, meeting certain cumulative operating profit metrics. The Company uses the Monte Carlo simulation model to measure the fair value of the total shareholder return portion of the PSUs. The earnings per share portion of the PSUs is measured at the grant date market price. PSUs have a requisite service period of generally three years. Expense is attributed to the requisite service period on a straight-line basis based on the fair value of the PSUs, adjusted for the performance modifier at the end of each reporting period. For PSUs that are designated as equity awards, the fair value is measured at the grant date. For PSUs that are eligible for cash settlement and designated as liability awards, the Company re-measures the fair value at the end of each reporting period and adjusts a corresponding liability in its Consolidated Balance Sheets for changes in fair value.

PeRSUs are awards for which the number of RSUs awarded is conditional upon the attainment of one or more performance objectives over a specified period. All outstanding PeRSU awards have completed the performance period and are now classified and accounted for as RSUs. The Company did not grant any PeRSUs during the years ended March 31, 2021 and 2020.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

The weighted-average assumptions used in the Monte Carlo valuations are as follows:

	Years Ended March 31,		
	2021	2020	2019
Expected stock price volatility	36%	30%	31%
Expected dividend yield	1.1%	1.3%	0.9%
Risk-free interest rate	0.2%	2.2%	2.6%
Expected life (in years)	3	3	3

The following table summarizes activity for restricted stock unit awards (RSUs, PSUs, and PeRSUs) during 2021:

<i>(In millions, except per share data)</i>	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested, March 31, 2020	3	\$135.57
Granted	1	155.47
Cancelled	—	133.70
Vested	(1)	147.63
Nonvested, March 31, 2021	3	\$142.13

The following table provides data related to restricted stock unit award activity:

<i>(In millions)</i>	Years Ended March 31,		
	2021	2020	2019
Total fair value of shares vested	\$ 79	\$ 67	\$ 59
Total compensation cost, net of estimated forfeitures, related to nonvested restricted stock unit awards not yet recognized, pre-tax	\$147	\$155	\$119
Weighted-average period in years over which restricted stock unit award cost is expected to be recognized	2	3	2

Stock Options

Stock options are granted with an exercise price at no less than the fair market value and those options granted under the stock plans generally have a contractual term of seven years and follow a four-year vesting schedule.

Compensation expense for stock options is recognized on a straight-line basis over the requisite service period and is based on the grant-date fair value for the portion of the awards that is ultimately expected to vest. The Company uses the Black-Scholes options-pricing model to estimate the fair value of its stock options. Once the fair value of an employee stock option is determined, current accounting practices do not permit it to be changed, even if the estimates used are different from actual.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Weighted-average assumptions used to estimate the fair value of employee stock options were as follows: ⁽¹⁾

	Year Ended March 31, 2019
Expected stock price volatility ⁽²⁾	26%
Expected dividend yield ⁽³⁾	0.9%
Risk-free interest rate ⁽⁴⁾	2.8%
Expected life (in years) ⁽⁵⁾	4.6

- (1) The Company did not grant any stock options during the years ended March 31, 2021 and 2020.
- (2) The computation of expected volatility was based on a combination of the historical volatility of the Company's common stock and implied market volatility. The Company believes this market-based input provides a reasonable estimate of its future stock price movements and is consistent with employee stock option valuation considerations.
- (3) Expected dividend yield is based on historical experience and investors' current expectations.
- (4) The risk-free interest rate for periods within the expected life of the option is based on the constant maturity U.S. Treasury rate in effect at the grant date.
- (5) The expected life of the options is based primarily on historical employee stock option exercises and other behavioral data and reflects the impact of changes in the contractual life of current option grants compared to the Company's historical grants.

The following is a summary of stock options outstanding at March 31, 2021:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Options Outstanding at Year End (In millions)	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Options Exercisable at Year End (In millions)	Weighted-Average Exercise Price
\$118.41 – \$183.20	1	3	\$166.18	1	\$171.38
183.20 – 237.86	1	1	216.23	1	216.23
	<u>2</u>			<u>2</u>	

The following table summarizes stock option activity during 2021:

<i>(In millions, except per share data)</i>				
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ⁽²⁾
Outstanding, March 31, 2020	2	\$180.48	3	\$ 1
Granted	—	—		
Cancelled	—	187.12		
Exercised	—	153.51		
Outstanding, March 31, 2021	2	\$183.29	2	\$36
Vested and expected to vest ⁽¹⁾	2	\$183.38	2	\$35
Vested and exercisable, March 31, 2021	2	189.20	2	24

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

- (1) The number of options expected to vest takes into account an estimate of expected forfeitures.
- (2) The intrinsic value is calculated as the difference between the period-end market price of the Company's common stock and the exercise price of "in-the-money" options.

The following table provides data related to stock option activity:

<i>(In millions, except per share data)</i>	Years Ended March 31,		
	2021	2020	2019
Weighted-average grant date fair value per stock option	\$—	\$—	\$34.98
Aggregate intrinsic value on exercise	\$ 5	\$ 17	\$ 16
Cash received upon exercise	\$ 38	\$ 66	\$ 29
Tax benefits realized related to exercise	\$ 4	\$ 4	\$ 4
Total fair value of stock options vested	\$ 10	\$ 16	\$ 16
Total compensation cost, net of estimated forfeitures, related to unvested stock options not yet recognized, pre-tax	\$ 2	\$ 6	\$ 15
Weighted-average period in years over which stock option compensation cost is expected to be recognized	2	2	2

Employee Stock Purchase Plan

The Company has an ESPP under which 21 million shares have been authorized for issuance. The ESPP allows eligible employees to purchase shares of the Company's common stock through payroll deductions. The deductions occur over three-month purchase periods and the shares are then purchased at 85% of the market price at the end of each purchase period. Employees are allowed to terminate their participation in the ESPP at any time during the purchase period prior to the purchase of the shares. The 15% discount provided to employees on these shares is included in compensation expense. The shares related to funds outstanding at the end of a quarter are included in the calculation of diluted weighted-average shares outstanding. These amounts have not been significant for all the years presented. The Company recognizes costs for employer matching contributions as ESPP expense over the relevant purchase period. Shares issued under the ESPP were not material in 2021, 2020, and 2019. At March 31, 2021, 2 million shares remain available for issuance.

7. Other Income, Net

Other income, net consists of the following:

<i>(In millions)</i>	Years Ended March 31,		
	2021	2020	2019
Interest income	\$ 12	\$ 49	\$ 39
Equity in earnings, net ⁽¹⁾	48	36	43
Net gains on investments in equity securities ⁽²⁾	133	17	23
Actuarial losses from pension plans ⁽³⁾	—	(127)	—
Gain from sale of equity method investment ⁽⁴⁾	—	—	56
Other, net	30	37	21
Total	<u>\$223</u>	<u>\$ 12</u>	<u>\$182</u>

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

- (1) Primarily recorded within the Company's International segment.
- (2) Represents net realized and unrealized gains on the Company's investments in equity securities of certain U.S. growth stage companies in the healthcare industry. These gains primarily relate to mark-to-market adjustments for investments which are measured at fair value based on changes in the observable price of the securities and realized gains on disposal of certain of these investments and were included within Corporate expenses, net. Refer to Financial Note 17, "Fair Value Measurements," and to Financial Note 22, "Segments of Business."
- (3) Includes \$116 million from the termination of the U.S. defined benefit pension plan and \$11 million related to a settlement from the executive benefit retirement plan for a retired executive. Refer to Financial Note 15, "Pension Benefits."
- (4) Represents a gain from the sale of an equity investment to a third party included in RxTS during 2019.

8. Income Taxes

<i>(In millions)</i>	Years Ended March 31,		
	2021	2020	2019
Income (loss) from continuing operations before income taxes			
U.S.	\$(6,019)	\$ 216	\$1,512
Foreign	985	928	(902)
Income (loss) from continuing operations before income taxes	<u>\$(5,034)</u>	<u>\$1,144</u>	<u>\$ 610</u>

Income tax expense (benefit) related to continuing operations consists of the following:

<i>(In millions)</i>	Years Ended March 31,		
	2021	2020	2019
Current			
Federal	\$ (15)	\$ 170	\$(20)
State	47	48	35
Foreign	181	142	152
Total current	<u>213</u>	<u>360</u>	<u>167</u>
Deferred			
Federal	(562)	(204)	223
State	(204)	(105)	44
Foreign	(142)	(33)	(78)
Total deferred	<u>(908)</u>	<u>(342)</u>	<u>189</u>
Income tax expense (benefit)	<u>\$(695)</u>	<u>\$ 18</u>	<u>\$356</u>

The Company reported an income tax benefit rate of 13.8% in 2021. Income tax expense rates were 1.6% and 58.4% in 2020 and 2019, respectively. Fluctuations in the Company's reported income tax rates are primarily due to the impact of opioid-related claims of \$8.1 billion (\$6.8 billion after-tax) in 2021, the impact of the Change Healthcare joint venture divestiture in 2020, the impact of nondeductible impairment charges in 2019, and varying proportions of income attributable to foreign countries that have income tax rates different from the U.S. rate.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

The reconciliation of income tax expense (benefit) and the amount computed by applying the statutory federal income tax rate of 21% to income before income taxes is as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2021	2020	2019
Income tax expense (benefit) at federal statutory rate	\$(1,057)	\$240	\$128
State income taxes, net of federal tax benefit	(206)	(41)	70
Tax effect of foreign operations	(77)	(81)	(86)
Unrecognized tax benefits and settlements	41	(7)	20
Non-deductible goodwill	14	7	357
Opioid-related litigation and claims	715	—	—
Net tax benefit on intellectual property transfer	(105)	—	(42)
Tax-free gain on investment exit ⁽¹⁾	—	(87)	—
Impact of change in U.S. tax rate on temporary differences	—	—	(81)
Capital loss carryback	—	(19)	—
Other, net ⁽²⁾	(20)	6	(10)
Income tax expense (benefit)	<u>\$ (695)</u>	<u>\$ 18</u>	<u>\$356</u>

- (1) Refer to Financial Note 2, “Investment in Change Healthcare Joint Venture,” for additional information regarding the separation of the Change Healthcare JV.
- (2) The Company’s effective tax rates were impacted by other favorable U.S. federal permanent differences including research and development credits of \$5 million in 2021 and \$7 million in each of 2020 and 2019.

The Company’s reported income tax rate for 2021 was impacted by the charge for pending and future opioid-related claims of \$8.1 billion (\$6.8 billion after-tax), as described further in Financial Note 19, “Commitments and Contingent Liabilities.” The Company recorded a deferred tax benefit of \$1.3 billion, which is net of certain non-deductible expenses and an unrecognized tax benefit of \$455 million.

During 2021 and 2019, the Company sold intellectual property between wholly-owned legal entities within McKesson that are based in different tax jurisdictions. In both instances, the transferor entity recognized a gain on the sale of assets which was not subject to income tax in its local jurisdiction; such gains were eliminated upon consolidation. The acquiring entities of the intellectual property were entitled to amortize the purchase price of the assets for tax purposes. In accordance with ASU 2016-16, “Intra-Entity Transfers of Assets Other Than Inventory,” discrete tax benefits of \$105 million and \$42 million were recognized for 2021 and 2019, respectively, with a corresponding increase to a deferred tax assets for the temporary difference arising from the buyer’s excess tax basis.

On March 10, 2020, the Company completed the previously announced separation of its interest in the Change Healthcare JV as described in Financial Note 2, “Investment in Change Healthcare Joint Venture.” The Company’s reported income tax expense rate for 2020 was favorably impacted by this transaction given that it was intended to generally be a tax-free split-off for U.S. federal income tax purposes. In the fourth quarter of 2020, the Company recognized a net gain for financial reporting purposes of \$414 million related to the separation transaction.

The Company’s reported income tax expense rate for 2020 was unfavorably impacted by non-cash charges of \$275 million to remeasure the carrying value of assets and liabilities held for sale related to the formation of a

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

new German wholesale joint venture within the Company's International segment. Refer to Financial Note 3, "Held for Sale," for more information on this transaction which closed in the third quarter of 2021.

The Company's reported income tax expense rate for 2019 was unfavorably impacted by non-cash charges of \$1.8 billion to impair the carrying value of goodwill for its International segment, given that these charges are generally not deductible for tax purposes. Refer to Financial Note 12, "Goodwill and Intangible Assets, Net," for more information.

Deferred tax balances consisted of the following:

<i>(In millions)</i>	March 31,	
	2021	2020
Assets		
Receivable allowances	\$ 69	\$ 72
Opioid-related litigation and claims	724	—
Compensation and benefit related accruals	305	331
Net operating loss and credit carryforwards	974	828
Lease obligations	539	482
Other	115	109
Subtotal	2,726	1,822
Less: valuation allowance	(864)	(833)
Total assets	1,862	989
Liabilities		
Inventory valuation and other assets	(1,939)	(1,947)
Fixed assets and systems development costs	(196)	(202)
Intangibles	(411)	(531)
Lease right-of-use assets	(505)	(449)
Other	(37)	(56)
Total liabilities	(3,088)	(3,185)
Net deferred tax liability	\$ (1,226)	\$ (2,196)
Long-term deferred tax asset	\$ 185	\$ 59
Long-term deferred tax liability	(1,411)	(2,255)
Net deferred tax liability	<u><u>\$(1,226)</u></u>	<u><u>\$(2,196)</u></u>

The Company assesses the available positive and negative evidence to determine whether deferred tax assets are more likely than not to be realized. As a result of this assessment, valuation allowances have been recorded on certain deferred tax assets in various tax jurisdictions. The valuation allowances were approximately \$864 million and \$833 million in 2021 and 2020, respectively, and primarily relate to net operating and capital losses incurred in certain tax jurisdictions for which no tax benefit was recognized. The increase in the valuation allowance of \$31 million in the current year relates primarily to net operating losses incurred and deferred tax movements in certain tax jurisdictions for which no tax benefit was recognized.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

The Company has federal, state, and foreign net operating loss carryforwards of \$2.4 billion, \$3.9 billion, and \$2.2 billion at March 31, 2021. Federal and state net operating losses will expire at various dates from 2022 through 2041. Substantially all its foreign net operating losses have indefinite lives. In addition, the Company has foreign capital loss carryforwards of \$783 million with indefinite lives.

The following table summarizes the activity related to the Company's gross unrecognized tax benefits for the last three years:

<i>(In millions)</i>	Years Ended March 31,		
	2021	2020	2019
Unrecognized tax benefits at beginning of period	\$ 958	\$1,052	\$1,183
Additions based on tax positions related to prior years	53	20	78
Reductions based on tax positions related to prior years	(5)	(168)	(234)
Additions based on tax positions related to current year	755	82	68
Reductions based on settlements	(8)	(8)	(13)
Reductions based on the lapse of the applicable statutes of limitations	(12)	(13)	(25)
Exchange rate fluctuations	13	(7)	(5)
Unrecognized tax benefits at end of period	<u>\$1,754</u>	<u>\$ 958</u>	<u>\$1,052</u>

As of March 31, 2021, the Company had \$1.8 billion of unrecognized tax benefits, of which \$1.3 billion would reduce income tax expense and the effective tax rate, if recognized. The increase in unrecognized tax benefits in 2021 compared to 2020 is primarily attributable to uncertainty in connection with the deductibility of Opioid-related litigation and claims. Because many uncertainties associated with any potential settlement arrangements or other resolutions of opioid claims including provisions related to deductibility have not been finalized, the actual amount of the tax benefit related to uncertain tax positions may differ from these estimates. Refer to Financial Note 19, "Commitments and Contingent Liabilities," for more information. The decrease in unrecognized tax benefits in 2020 compared to 2019 is primarily attributable to the favorable resolution of an outstanding California tax refund claim which decreased unrecognized tax benefits by \$91 million.

During the next twelve months, it is reasonably possible that the Company's unrecognized tax benefit may decrease by as much as \$93 million due to settlements of tax examinations and statute of limitations expirations in the U.S. federal and state jurisdictions and in foreign jurisdictions. However, this amount may change as the Company continues to have ongoing negotiations with various taxing authorities throughout the year.

The Company reports interest and penalties on income taxes as income tax expense. It recognized income tax expense of \$9 million, \$23 million, and \$33 million in 2021, 2020, and 2019, respectively, representing interest and penalties, in its Consolidated Statements of Operations. As of March 31, 2021 and 2020, it accrued \$101 million and \$91 million cumulatively in interest and penalties on unrecognized tax benefits.

The Company files income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions, and various foreign jurisdictions. The Internal Revenue Service ("IRS") is currently examining the Company's U.S. corporation income tax returns for 2018 and 2019. The Company is generally subject to audit by taxing authorities in various U.S. states and in foreign jurisdictions for fiscal years 2013 through the current fiscal year.

Undistributed earnings of the Company's foreign operations of approximately \$6.0 billion were considered indefinitely reinvested. Following enactment of the 2017 Tax Act, the repatriation of cash to the U.S. is generally

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

no longer taxable for federal income tax purposes. However, the repatriation of cash held outside the U.S. could be subject to applicable foreign withholding taxes and state income taxes. The Company may remit foreign earnings to the U.S. to the extent it is tax efficient to do so. It does not expect the tax impact from remitting these earnings to be material.

9. Redeemable Noncontrolling Interests and Noncontrolling Interests

Redeemable Noncontrolling Interests

The Company's redeemable noncontrolling interests primarily relate to its consolidated subsidiary, McKesson Europe. Under the December 2014 domination and profit and loss transfer agreement (the "Domination Agreement"), the noncontrolling shareholders of McKesson Europe are entitled to receive an annual recurring compensation amount of €0.83 per share. As a result, during 2021, 2020, and 2019, the Company recorded a total attribution of net income to the noncontrolling shareholders of McKesson Europe of \$43 million, \$42 million, and \$45 million, respectively. All amounts were recorded in "Net income attributable to noncontrolling interests" in the Company's Consolidated Statements of Operations and the corresponding liability balance was recorded in "Other accrued liabilities" in the Company's Consolidated Balance Sheets.

Under the Domination Agreement, the noncontrolling shareholders of McKesson Europe have a right to put ("Put Right") their noncontrolling shares at €22.99 per share, increased annually for interest in the amount of five percentage points above a base rate published by the German Bundesbank semi-annually, less any compensation amount or guaranteed dividend already paid by McKesson with respect to the relevant time period ("Put Amount"). The exercise of the Put Right will reduce the balance of redeemable noncontrolling interests. During 2021, the Company paid \$49 million to purchase 1.8 million shares of McKesson Europe through exercises of the Put Right by the noncontrolling shareholders. This decreased the carrying value of the noncontrolling interests by \$49 million, and the associated effect of the increase in the Company's ownership interest on its equity of \$3 million was recorded as a net increase to McKesson's stockholders paid-in capital. During 2020 and 2019, there were no material exercises of the Put Right. The balance of the associated liability for Redeemable noncontrolling interests is reported as the greater of its carrying value or its maximum redemption value at each reporting date. The redemption value is the Put Amount adjusted for exchange rate fluctuations each period. The Redeemable noncontrolling interest is also adjusted each period for the proportion of other comprehensive income, primarily due to changes in foreign currency exchange rates, attributable to the noncontrolling shareholders. At March 31, 2021 and 2020, the carrying value of redeemable noncontrolling interests of \$1.3 billion and \$1.4 billion, respectively, exceeded the maximum redemption value of \$1.2 billion and \$1.2 billion, respectively. At March 31, 2021 and 2020, the Company owned approximately 78% and 77%, respectively, of McKesson Europe's outstanding common shares.

Appraisal Proceedings

Subsequent to the Domination Agreement's registration, certain noncontrolling shareholders of McKesson Europe initiated appraisal proceedings ("Appraisal Proceedings") with the Stuttgart Regional Court (the "Court") to challenge the adequacy of the Put Amount, annual recurring compensation amount, and/or the guaranteed dividend. During the pendency of the Appraisal Proceedings, such amount was paid as specified currently in the Domination Agreement. On September 19, 2018, the Court ruled that the Put Amount shall be increased by €0.51 resulting in an adjusted Put Amount of €23.50. The annual recurring compensation amount and/or the guaranteed dividend remained unadjusted. Noncontrolling shareholders of McKesson Europe appealed this decision. McKesson Europe Holdings GmbH & Co. KGaA also appealed the decision. On April 12, 2021, the Company received notice that the Stuttgart Court of Appeals ruled that the Put Amount shall remain €22.99, thereby rejecting the lower court's increase, and the recurring compensation shall remain €0.83 per share.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Noncontrolling Interests

Noncontrolling interests represent third-party equity interests in the Company's consolidated entities primarily related to ClarusONE and Vantage, which were \$196 million and \$217 million at March 31, 2021 and 2020, respectively, in the Company's Consolidated Balance Sheets. During 2021, 2020, and 2019, respectively, the Company allocated a total of \$156 million, \$178 million, and \$176 million of net income to noncontrolling interests.

Changes in redeemable noncontrolling interests and noncontrolling interests for the years ended March 31, 2021, 2020, and 2019 were as follows:

<i>(In millions)</i>	Noncontrolling Interests	Redeemable Noncontrolling Interests
Balance, March 31, 2018	\$ 253	\$1,459
Net income attributable to noncontrolling interests	176	45
Other comprehensive loss	—	(66)
Reclassification of recurring compensation to other accrued liabilities	—	(45)
Payments to noncontrolling interests	(184)	—
Other	(52)	—
Balance, March 31, 2019	193	1,393
Net income attributable to noncontrolling interests	178	42
Other comprehensive income	—	3
Reclassification of recurring compensation to other accrued liabilities	—	(42)
Payments to noncontrolling interests	(154)	—
Other	—	6
Balance, March 31, 2020	217	1,402
Net income attributable to noncontrolling interests	156	43
Other comprehensive loss	—	(79)
Reclassification of recurring compensation to other accrued liabilities	—	(43)
Payments to noncontrolling interests	(177)	—
Exercises of put right	—	(49)
Other	—	(3)
Balance, March 31, 2021	<u>\$ 196</u>	<u>\$1,271</u>

10. Earnings per Common Share

Basic earnings (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the reporting period. The computation of diluted earnings (loss) per common share is similar to that of basic earnings (loss) per common share, except that the former reflects the potential dilution that could occur if dilutive securities or other obligations to issue common stock were exercised or converted into common stock.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Diluted loss per common share for the year ended March 31, 2021 was calculated by excluding potentially dilutive securities from the denominator of the share computation due to their anti-dilutive effects. Potentially dilutive securities include outstanding stock options, restricted stock units, and performance-based and other restricted stock units. Approximately 2 million and 3 million of potentially dilutive securities for 2020 and 2019, respectively, were excluded from the computations of diluted net earnings per common share, as they were anti-dilutive.

The computations for basic and diluted earnings or loss per common share are as follows:

<i>(In millions, except per share amounts)</i>	Years Ended March 31,		
	2021	2020	2019
Income (loss) from continuing operations	\$(4,339)	\$1,126	\$ 254
Net income attributable to noncontrolling interests	(199)	(220)	(221)
Income (loss) from continuing operations attributable to McKesson	(4,538)	906	33
Income (loss) from discontinued operations, net of tax	(1)	(6)	1
Net income (loss) attributable to McKesson	<u>\$(4,539)</u>	<u>\$ 900</u>	<u>\$ 34</u>
Weighted-average common shares outstanding:			
Basic	160.6	180.6	196.3
Effect of dilutive securities:			
Restricted stock units	—	1.0	1.0
Diluted	<u>160.6</u>	<u>181.6</u>	<u>197.3</u>
Earnings (loss) per common share attributable to McKesson: ⁽¹⁾			
Diluted			
Continuing operations	\$(28.26)	\$ 4.99	\$ 0.17
Discontinued operations	—	(0.04)	—
Total	<u>\$(28.26)</u>	<u>\$ 4.95</u>	<u>\$ 0.17</u>
Basic			
Continuing operations	\$(28.26)	\$ 5.01	\$ 0.17
Discontinued operations	—	(0.03)	—
Total	<u>\$(28.26)</u>	<u>\$ 4.98</u>	<u>\$ 0.17</u>

(1) Certain computations may reflect rounding adjustments.

11. Leases

In the first quarter of 2020, the Company adopted amended guidance for leases using the modified retrospective method. Upon adoption of this amended guidance, the Company recorded \$2.2 billion of operating lease liabilities, \$2.1 billion of operating lease ROU assets, and a cumulative-effect adjustment of \$69 million to opening retained earnings as of April 1, 2019. The adjustment to opening retained earnings included impairment charges of \$89 million, net of tax, to the ROU assets primarily related to previously impaired long-lived assets at the retail pharmacies in the Company's U.K. and Canadian businesses, partially offset by derecognition of existing deferred gain on the Company's sale-leaseback transaction related to its former corporate headquarters

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

building. The Company also elected to adopt the transition package of practical expedients provided within the amended guidance which eliminated the requirements to reassess lease identification, lease classification, and initial direct costs for leases which commenced before April 1, 2019. The adoption of this guidance did not have a material impact on the Company's consolidated statements of operations and cash flows.

Lessee

The Company leases facilities and equipment, primarily under operating leases. The Company recognizes lease expense on a straight-line basis over the term of the lease, taking into account, when applicable, lessor incentives for tenant improvements, periods where no rent payment is required, and escalations in rent payments over the term of the lease. As a practical expedient, the Company does not separate lease components from non-lease components such as common area maintenance, utilities, and repairs and maintenance. Remaining terms for facility leases generally range from one to 15 years, while remaining terms for equipment leases generally range from one to five years. Most real property leases contain renewal options (typically for five-year increments). Generally, the renewal option periods are not included within the lease term as the Company is not reasonably certain to exercise that right at lease commencement. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Operating right-of-use ("ROU") assets and operating lease liabilities are recognized at the lease commencement date. ROU assets represent the Company's right to use an underlying asset for the lease term and operating lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease liabilities are recognized based on the present value of the future lease payments over the lease term, discounted at the Company's incremental borrowing rate as the implicit rate in the lease is not readily determinable for most of the Company's leases. The Company estimates the discount rate as its incremental borrowing rate based on qualitative factors including Company specific credit rating, lease term, general economics, and the interest rate environment. For existing leases that commenced prior to the adoption of the amended leasing guidance, the Company determined the discount rate on April 1, 2019 using the full lease term. Operating lease liabilities are recorded in "Current portion of operating lease liabilities" and "Long-term operating lease liabilities," and the corresponding lease assets are recorded in "Operating lease right-of-use assets" in the Company's Consolidated Balance Sheets. Finance lease assets are included in "Property, plant, and equipment, net" and finance lease liabilities are included in "Current portion of long-term debt" and "Long-term debt" in the Company's Consolidated Balance Sheets. As a practical expedient, short-term leases with an initial term of 12 months or less are excluded from the Consolidated Balance Sheets and charges from these leases are expensed as incurred.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Supplemental balance sheet information related to leases was as follows:

<i>(In millions, except lease term and discount rate)</i>	March 31,	
	2021	2020
Operating leases		
Operating lease right-of-use assets	\$2,100	\$1,886
Current portion of operating lease liabilities	\$ 390	\$ 354
Long-term operating lease liabilities	1,867	1,660
Total operating lease liabilities	<u>\$2,257</u>	<u>\$2,014</u>
Finance leases		
Property, plant and equipment, net	\$ 237	\$ 180
Current portion of long-term debt	\$ 22	\$ 15
Long-term debt	206	151
Total finance lease liabilities	<u>\$ 228</u>	<u>\$ 166</u>
Weighted-average remaining lease term (Years)		
Operating leases	7.8	7.7
Finance leases	10.1	12.1
Weighted-average discount rate		
Operating leases	2.53%	3.03%
Finance leases	2.71%	2.86%

The components of lease cost were as follows:

<i>(In millions)</i>	Years Ended March 31,	
	2021	2020
Short-term lease cost	\$ 32	\$ 29
Operating lease cost	465	459
Finance lease cost:		
Amortization of right-of-use assets	23	14
Interest on lease liabilities	6	5
Total finance lease cost	29	19
Variable lease cost ⁽¹⁾	125	125
Sublease income	(36)	(33)
Total lease cost ⁽²⁾	<u>\$615</u>	<u>\$599</u>

- (1) These amounts include payments for maintenance, taxes, payments affected by the consumer price index, and other similar metrics and payments contingent on usage.
- (2) These amounts were primarily recorded in "Selling, distribution, general, and administrative expenses" in the Consolidated Statements of Operations.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Rent expense under operating leases was \$576 million in 2019.

Supplemental cash flow information related to leases was as follows:

<i>(In millions)</i>	Years Ended March 31,	
	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ (362)	\$ (377)
Operating cash flows from finance leases	(4)	(3)
Financing cash flows from finance leases	(31)	(18)
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases ⁽¹⁾	\$ 321	\$2,378
Finance leases	75	166

- (1) The amount for the year ended March 31, 2020 includes the transition adjustment of \$2.1 billion for operating lease right-of-use assets recorded as of April 1, 2019 upon adoption of the amended leasing guidance included in ASU 2016-02, *Leases*.

Maturities of lease liabilities as of March 31, 2021 were as follows:

<i>(In millions)</i>	Operating Leases	Finance Leases	Total
2022	\$ 433	\$ 28	\$ 461
2023	401	28	429
2024	332	27	359
2025	283	25	308
2026	233	24	257
Thereafter	823	130	953
Total lease payments ⁽¹⁾	2,505	262	2,767
Less imputed interest	(248)	(34)	(282)
Present value of lease liabilities	<u>\$2,257</u>	<u>\$228</u>	<u>\$2,485</u>

- (1) Total lease payments are not reduced by minimum sublease income of \$202 million which are due under future noncancellable subleases.

As of March 31, 2021, the Company entered into additional leases primarily for facilities that have not yet commenced with future lease payments of \$217 million that are not reflected in the table above. These operating leases will commence between 2022 and 2024 with noncancellable lease terms of five to 15 years.

Lessor

The Company primarily leases certain owned equipment, that are classified as direct financing or sales-type leases, to physician practices. As of March 31, 2021 and 2020, the total lease receivable was \$298 million and \$272 million, respectively, with a weighted-average remaining lease term of approximately seven years. Interest income from these leases was not material for the years ended March 31, 2021 and 2020.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

12. Goodwill and Intangible Assets, Net

Goodwill

Changes in the carrying amount of goodwill were as follows:

<i>(In millions)</i>	U.S. Pharmaceutical	International	Medical- Surgical Solutions	Prescription Technology Solutions	Total
Balance, March 31, 2019	\$3,935	\$1,446	\$2,451	\$1,526	\$9,358
Goodwill acquired	—	62	—	14	76
Acquisition accounting, transfers and other adjustments	1	4	7	—	12
Other changes/disposals	(1)	—	(5)	—	(6)
Impairment charges	—	(2)	—	—	(2)
Foreign currency translation adjustments, net	(11)	(67)	—	—	(78)
Balance, March 31, 2020	3,924	1,443	2,453	1,540	9,360
Goodwill acquired	—	5	—	—	5
Acquisition accounting, transfers and other adjustments	—	—	—	2	2
Other changes/disposals	(1)	—	—	—	(1)
Impairment charges	—	(69)	—	—	(69)
Foreign currency translation adjustments, net	40	156	—	—	196
Balance, March 31, 2021	<u>\$3,963</u>	<u>\$1,535</u>	<u>\$ 2,453</u>	<u>\$1,542</u>	<u>\$9,493</u>

Goodwill Impairment Charges

The Company evaluates goodwill for impairment on an annual basis each year and at an interim date, if indicators of potential impairment exist. On October 1, 2019, the Company voluntarily changed its annual goodwill impairment testing date from January 1 to October 1 to better align with the timing of the Company's annual long-term planning process. Accordingly, management determined that the change in accounting principle is preferable under the circumstance. This change has been applied prospectively from October 1, 2019 as retrospective application is deemed impracticable due to the inability to objectively determine the assumptions and significant estimates used in earlier periods without the benefit of hindsight. This change was not material to the Company's consolidated financial statements as it did not delay, accelerate, or avoid any potential goodwill impairment charge.

Goodwill impairment testing is conducted at the reporting unit level, which is generally defined as an operating segment or one level below an operating segment (also known as a component), for which discrete financial information is available and segment management regularly reviews the operating results of that reporting unit.

The fair value of the reporting units was determined using a combination of an income approach based on a DCF model and a market approach based on appropriate valuation multiples observed for the reporting unit's guideline public companies. Fair value estimates result from a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions that have been deemed reasonable by

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

management as of the measurement date. Any material changes in key assumptions, including failure to improve operations of certain retail pharmacy stores, additional government reimbursement reductions, deterioration in the financial markets, an increase in interest rates or an increase in the cost of equity financing by market participants within the industry, or other unanticipated events and circumstances, may affect such estimates. The discount rates are the weighted-average cost of capital measuring the reporting unit's cost of debt and equity financing weighted by the percentage of debt and percentage of equity in a company's target capital. The unsystematic risk premium is an input factor used in calculating the discount rate that specifically addresses uncertainty related to the reporting unit's future cash flow projections. Fair value assessments of the reporting unit are considered a Level 3 measurement due to the significance of unobservable inputs developed using company-specific information.

Goodwill charges listed below were recorded in "Goodwill impairment charges" in the Consolidated Statements of Operations. Most of the goodwill impairment for these reporting units were generally not deductible for income tax purposes.

Fiscal 2021

In the second quarter of 2021, the Company implemented a new segment reporting structure which resulted in four reportable segments: U.S. Pharmaceutical, International, Medical-Surgical Solutions, and RxTS. These reportable segments encompass all operating segments of the Company. This segment change prompted changes in multiple reporting units across the Company. As a result, goodwill included in impacted reporting units was reallocated using a relative fair value approach and assessed for impairment both before and after the reallocation.

The Company recorded a goodwill impairment charge of \$69 million in 2021 as the estimated fair value of the Europe Retail Pharmacy reporting unit was lower than its reassigned carrying value based on changes in the composition of the Europe Retail Pharmacy reporting unit within the International segment. At March 31, 2021, the balance of goodwill for the reporting units in Europe was approximately nil and the remaining balance of goodwill in the International segment primarily relates to one of its reporting units in Canada.

The annual impairment testing performed for 2021 did not indicate any impairment of goodwill.

Fiscal 2020

The impairment testing performed in 2020 did not indicate any material impairment of goodwill.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Fiscal 2019

The impairment testing performed in 2019 resulted in the following impairment charges:

(In millions, except rates)

Quarter Ended	Reporting Unit	Segment ⁽¹⁾	Discount Rate	Terminal Growth Rate	Goodwill Impairment ⁽²⁾
June 2018	Pharmaceutical Distribution	International	8.0%	1.25%	\$ 238 ⁽³⁾
June 2018	Retail Pharmacy	International	8.5%	1.25%	251 ⁽⁴⁾
June 2018	Pharmaceutical Distribution	International	8.0%	1.25%	81 ⁽⁴⁾
March 2019	Retail Pharmacy	International	10.0%	1.25%	465 ⁽⁵⁾
March 2019	Pharmaceutical Distribution	International	9.0%	1.25%	741 ⁽⁵⁾
Total					<u>\$1,776</u>

- (1) As described above, the Company implemented its new segment reporting structure in the second quarter of 2021 and its European Pharmaceutical Solutions segment and its Rexall Health business in Canada became part of the International segment. Amounts included herein were previously included within the former European Pharmaceutical Solutions segment.
- (2) Represents pre-tax and after-tax amounts, except for an aggregate \$20 million of tax charges related to the March 2019 Retail Pharmacy impairment. Total goodwill impairment for 2019 also included \$21 million related to the Company's Rexall Health business, within the International segment, recorded in the third quarter of 2019.
- (3) Prior to implementing its new segment reporting structure in the first quarter of 2019, the Company's European operations were considered a single reporting unit. Following the change in reportable segments, its European Pharmaceutical Solutions segment was divided into two distinct reporting units, Retail Pharmacy ("RP"), formerly Consumer Solutions, and Pharmaceutical Distribution ("PD"), formerly Pharmacy Solutions, for the purposes of goodwill impairment testing. This change required performance of a goodwill impairment test for these two new reporting units which resulted in a goodwill impairment charge as PD's estimated fair value was lower than its reassigned carrying value.
- (4) Both RP and PD projected a decline in the estimated future cash flows primarily triggered by U.K. government actions which were announced on June 29, 2018. An interim goodwill impairment test for these reporting units identified that their carrying values exceeded their estimated fair value and resulted in an impairment charge.
- (5) As a result of the annual goodwill impairment test, the carrying values of the PD and RP reporting units exceeded their estimated fair value which required the Company to record impairment charges for the reporting units. These additional impairments were primarily due to declines in the reporting units' estimated future cash flows and the selection of higher discount rates. The declines in estimated future cash flows were primarily attributed to additional government reimbursement reductions and competitive pressures within the U.K. The risk of successfully achieving certain business initiatives was the primary factor in the use of a higher discount rate. As of March 31, 2019 the entire remaining goodwill balances of both reporting units were impaired.

Refer to Financial Note 17, "Fair Value Measurements," for more information on these nonrecurring fair value measurements. As of March 31, 2021 and 2020, accumulated goodwill impairment losses in the Company's International segment were \$3.6 billion and \$3.5 billion, respectively.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Intangible Assets

Information regarding intangible assets is as follows:

	March 31, 2021				March 31, 2020		
	Weighted-Average Remaining Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<i>(Dollars in millions)</i>							
Customer relationships	12	\$3,739	\$(2,269)	\$1,470	\$3,650	\$(1,950)	\$1,700
Service agreements	10	1,081	(513)	568	994	(480)	514
Pharmacy licenses	23	497	(244)	253	492	(232)	260
Trademarks and trade names	12	925	(394)	531	808	(242)	566
Technology	4	150	(122)	28	175	(111)	64
Other	6	254	(226)	28	273	(221)	52
Total		<u>\$6,646</u>	<u>\$(3,768)</u>	<u>\$2,878</u>	<u>\$6,392</u>	<u>\$(3,236)</u>	<u>\$3,156</u>

Amortization expense of intangible assets was \$422 million, \$462 million, and \$485 million for 2021, 2020, and 2019, respectively. Estimated annual amortization expense of intangible assets is as follows: \$370 million, \$270 million, \$259 million, \$253 million, and \$220 million for 2022 through 2026, and \$1.5 billion thereafter. All intangible assets were subject to amortization as of March 31, 2021 and 2020.

Refer to Financial Note 4, "Restructuring, Impairment, and Related Charges," for more information on intangible asset impairment charges recorded in 2021, 2020, and 2019.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

13. Debt and Financing Activities

Long-term debt consisted of the following:

<i>(In millions)</i>	March 31,	
	2021	2020
U.S. Dollar notes ^{(1) (2)}		
3.65% Notes due November 30, 2020	\$ —	\$ 700
4.75% Notes due March 1, 2021	—	323
2.70% Notes due December 15, 2022	400	400
2.85% Notes due March 15, 2023	400	400
3.80% Notes due March 15, 2024	1,100	1,100
0.90% Notes due December 3, 2025	500	—
7.65% Debentures due March 1, 2027	167	167
3.95% Notes due February 16, 2028	600	600
4.75% Notes due May 30, 2029	400	400
6.00% Notes due March 1, 2041	282	282
4.88% Notes due March 15, 2044	411	411
Foreign currency notes ^{(1) (3)}		
0.63% Euro Notes due August 17, 2021	704	662
1.50% Euro Notes due November 17, 2025	700	659
1.63% Euro Notes due October 30, 2026	587	552
3.13% Sterling Notes due February 17, 2029	627	557
Lease and other obligations	270	174
Total debt	7,148	7,387
Less: Current portion	742	1,052
Total long-term debt	<u>\$6,406</u>	<u>\$6,335</u>

(1) These notes are unsecured and unsubordinated obligations of the Company.

(2) Interest on these notes is payable semi-annually.

(3) Interest on these foreign currency notes is payable annually.

Long-Term Debt

The Company's long-term debt includes both U.S. dollar and foreign currency-denominated borrowings. At March 31, 2021 and 2020, \$7.1 billion and \$7.4 billion, respectively, of total debt was outstanding, of which \$742 million and \$1.1 billion, respectively, was included in "Current portion of long-term debt" in the Company's Consolidated Balance Sheets.

On December 3, 2020, the Company completed a public offering of 0.90% Notes due December 3, 2025 (the "2025 Notes") in a principal amount of \$500 million. Interest on the 2025 Notes is payable semi-annually on June 3rd and December 3rd of each year, commencing on June 3, 2021. Proceeds received from this note issuance, net of discounts and offering expenses, were \$496 million.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

During the year ended March 31, 2021, the Company retired its 3.65% \$700 million total principal of notes due on November 30, 2020 upon maturity. On December 1, 2020, the Company redeemed its 4.75% \$323 million total principal of notes due on March 1, 2021 prior to maturity. These notes were redeemed using cash on hand and the proceeds of the notes offering discussed above. In 2020, the Company repaid at maturity its €250 million Floating Rate Euro Notes due February 12, 2020. In 2019, the Company repaid at maturity its \$1.1 billion 2.28% notes due March 15, 2019.

Each note, which constitutes a “Series”, is an unsecured and unsubordinated obligation of the Company and ranks equally with all of the Company’s existing and, from time-to-time, future unsecured and unsubordinated indebtedness outstanding. Each Series is governed by materially similar indentures and officers’ certificates. Upon required notice to holders of notes with fixed interest rates, the Company may redeem those notes at any time prior to maturity, in whole or in part, for cash at redemption prices. In the event of the occurrence of both (1) a change of control of the Company and (2) a downgrade of a Series below an investment grade rating by each of Fitch Inc., Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services within a specified period, an offer must be made to purchase that Series from the holders at a price equal to 101% of the then outstanding principal amount of that Series, plus accrued and unpaid interest to, but not including, the date of repurchase. The indenture and the related officers’ certificate for each Series, subject to the exceptions and in compliance with the conditions as applicable, specify that the Company may not consolidate, merge or sell all or substantially all of its assets, incur liens, or enter into sale-leaseback transactions exceeding specific terms, without the lenders’ consent. The indentures also contain customary events of default provisions.

Other Information

Scheduled principal payments of long-term debt are \$742 million in 2022, \$838 million in 2023, \$1.1 billion in 2024, \$34 million in 2025, \$1.2 billion in 2026, and \$3.2 billion thereafter.

Revolving Credit Facilities

In the second quarter of 2020, the Company entered into a Credit Agreement, dated as of September 25, 2019 (the “2020 Credit Facility”), that provides a syndicated \$4.0 billion five-year senior unsecured credit facility with a \$3.6 billion aggregate sublimit of availability in Canadian dollars, British pound sterling, and Euro. Borrowings under the 2020 Credit Facility bear interest based upon the London Interbank Offered Rate (“LIBOR”), Canadian Dealer Offered Rate for credit extensions denominated in Canadian dollars, a prime rate, or alternative overnight rates as applicable, plus agreed margins. The 2020 Credit Facility matures in September 2024 and had no borrowings during 2021 and 2020 and no amounts outstanding as of March 31, 2021 and 2020.

On March 31, 2021, the Company entered into Amendment No. 2 to the 2020 Credit Facility, which superseded Amendment No. 1, dated as of February 1, 2021. The 2020 Credit Facility, as amended, contains various customary investment grade covenants, including a financial covenant which obligates the Company to maintain a maximum Total Debt to Consolidated EBITDA ratio, as defined in the amended credit agreement. If the Company does not comply with these covenants, its ability to use the 2020 Credit Facility may be suspended and repayment of any outstanding balances under the 2020 Credit Facility may be required. At March 31, 2021, the Company was in compliance with all covenants. The remaining terms and conditions of the 2020 Credit Facility are substantially similar to those previously in place under the \$3.5 billion five-year senior unsecured revolving credit facility (the “Global Facility”), which was scheduled to mature in October 2020. The Global Facility was terminated in connection with the execution of the 2020 Credit Facility in September 2019 and had no borrowings during the six months ended September 30, 2019.

The Company also maintains bilateral credit facilities primarily denominated in Euros with a committed amount of \$8 million and an uncommitted amount of \$152 million as of March 31, 2021. Borrowings and

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

repayments were not material in 2021 and 2020 and amounts outstanding under these credit lines were not material as of March 31, 2021 and 2020.

Commercial Paper

The Company maintains a commercial paper program to support its working capital requirements and for other general corporate purposes. Under the program, the Company can issue up to \$4.0 billion in outstanding commercial paper notes. During 2021 and 2020, it borrowed \$6.3 billion and \$21.4 billion, respectively, and repaid \$6.3 billion and \$21.4 billion, respectively, under the program. At March 31, 2021 and 2020, there were no commercial paper notes outstanding.

14. Variable Interest Entities

The Company evaluates its ownership, contractual, and other interests in entities to determine if they are VIEs, if it has a variable interest in those entities, and the nature and extent of those interests. These evaluations are highly complex and involve management judgment and the use of estimates and assumptions based on available historical information, among other factors. Based on its evaluations, if the Company determines it is the primary beneficiary of such VIEs, it consolidates such entities into its financial statements.

Consolidated Variable Interest Entities

The Company consolidates a VIE when it has the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits of the VIE and, as a result, is considered the primary beneficiary of the VIE. It consolidates certain single-lessee leasing entities where it, as the lessee, has the majority risk of the leased assets due to its minimum lease payment obligations to these leasing entities. As a result of absorbing this risk, the leases provide the Company with the power to direct the operations of the leased properties and the obligation to absorb losses or the right to receive benefits of the entity. Consolidated VIEs do not have a material impact on the Company's Consolidated Statements of Operations and Cash Flows. Total assets and liabilities included in its Consolidated Balance Sheets for these VIEs were \$662 million and \$74 million, respectively, at March 31, 2021 and \$695 million and \$82 million, respectively, at March 31, 2020.

Investments in Unconsolidated Variable Interest Entities

The Company is involved with VIEs which it does not consolidate because it does not have the power to direct the activities that most significantly impact their economic performance and thus is not considered the primary beneficiary of the entities. Its relationships include equity method investments and lending, leasing, contractual or other relationships with the VIEs. The Company's most significant relationships are with oncology and other specialty practices. Under these practice arrangements, it generally owns or leases all of the real estate and equipment used by the affiliated practices and manages the practices' administrative functions. It also has relationships with certain pharmacies in Europe with whom it may provide financing, have equity ownership, and/or a supply agreement whereby it supplies the vast majority of the pharmacies' purchases. The Company's maximum exposure to loss (regardless of probability) as a result of all unconsolidated VIEs was \$1.5 billion at March 31, 2021 and \$1.4 billion at March 31, 2020, which primarily represents the value of intangible assets related to service agreements, equity investments, and lease and loan receivables. This amount excludes the customer loan guarantees discussed in Financial Note 18, "Financial Guarantees and Warranties." The Company believes there is no material loss exposure on these assets or from these relationships.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

15. Pension Benefits

The Company maintains a number of qualified and nonqualified defined benefit pension plans and defined contribution plans for eligible employees.

Defined Benefit Pension Plans

The Company has an unfunded nonqualified supplemental defined benefit plan for certain U.S. executives, as well as benefit pension plans for eligible employees outside the U.S.

On May 23, 2018, the Company's Board of Directors approved the termination of its frozen U.S. defined benefit pension plan ("Plan"). During the first quarter of 2020, the Company offered the option of receiving a lump sum payment to certain participants with vested qualified Plan benefits in lieu of receiving monthly annuity payments. Approximately 1,300 participants elected to receive the settlement, and lump sum payments of approximately \$49 million were made from Plan assets to these participants in June 2019. The benefit obligation settled approximated payments to Plan participants and a settlement charge of \$17 million was recorded during the first quarter of 2020. During the second quarter of 2020, the Company transferred the remainder of the Plan's pension obligation to a third-party insurance provider by purchasing annuity contracts for approximately \$280 million which was fully funded directly by Plan assets. The third-party insurance provider assumed the obligation to pay future pension benefits and provide administrative services on November 1, 2019 and a pre-tax settlement charge of \$105 million was recorded during the second quarter of 2020. Settlement charges were included within "Other income, net," in the Consolidated Statements of Operations for the year ended March 31, 2020. As of March 31, 2020, this defined benefit pension plan had an accumulated comprehensive loss of approximately nil.

During the third quarter of 2020, a cash payment of \$114 million was made to settle a participant's liability from the executive benefit retirement plan. As a result, a majority of the remaining recorded unrecognized losses in accumulated other comprehensive loss for this Plan were recognized as expense and a settlement charge of approximately \$11 million was recorded in "Other income, net", in the Consolidated Statements of Operations. As of March 31, 2020 and 2019, this plan had an accumulated comprehensive loss of approximately \$1 million and \$12 million, respectively.

The Company's non-U.S. defined benefit pension plans cover eligible employees located predominantly in Norway, the United Kingdom, Germany, and Canada. Benefits for these plans are based primarily on each employee's final salary, with annual adjustments for inflation. The obligations in Norway are largely related to the state-regulated pension plan which is managed by the Norwegian Public Service Pension Fund ("SPK"). According to the terms of the SPK, the plan assets of state regulated plans in Norway must correspond very closely to the pension obligation calculated using the principles codified in Norwegian law. In the U.K., the Company has subsidiaries that participate in a joint pension plan. The pension obligation in Germany is unfunded with the exception of the contractual trust arrangement used to fund pensions of McKesson Europe's Management Board.

During the third quarter of 2021, the Company derecognized \$187 million of pension liabilities included in liabilities held for sale and \$33 million of accumulated other comprehensive loss related to its German pharmaceutical wholesale business contributed to a joint venture, as discussed in more detail in Financial Note 3, "Held for Sale."

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Defined benefit plan assets and obligations are measured as of the Company's fiscal year-end. The net periodic expense for the Company's pension plans is as follows:

<i>(In millions)</i>	U.S. Plans Years Ended March 31,			Non-U.S. Plans Years Ended March 31,		
	2021	2020	2019	2021	2020	2019
Service cost — benefits earned during the year	\$—	\$—	\$—	\$ 15	\$ 16	\$ 15
Interest cost on projected benefit obligation	—	6	14	19	19	21
Expected return on assets	—	(4)	(16)	(20)	(22)	(23)
Amortization of unrecognized actuarial loss and prior service costs	—	2	5	5	6	4
Curtailment/settlement loss	—	127	4	—	—	1
Net periodic pension expense	<u>\$—</u>	<u>\$131</u>	<u>\$ 7</u>	<u>\$ 19</u>	<u>\$ 19</u>	<u>\$ 18</u>

The projected unit credit method is utilized in measuring net periodic pension expense over the employees' service life for the pension plans. Unrecognized actuarial losses exceeding 10% of the greater of the projected benefit obligation or the market value of assets are amortized straight-line over the average remaining future service period of active employees.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Information regarding the changes in benefit obligations and plan assets for the Company's pension plans is as follows:

(In millions)	U.S. Plans Years Ended March 31,		Non-U.S. Plans Years Ended March 31,	
	2021	2020	2021	2020
Change in benefit obligations				
Benefit obligation at beginning of period ⁽¹⁾	\$ 10	\$ 439	\$ 896	\$ 990
Service cost	—	—	15	16
Interest cost	—	6	19	19
Actuarial loss (gain)	—	20	89	(36)
Benefits paid	(1)	(179)	(34)	(43)
Annuity Premium Transfer	—	(276)	—	—
Divestiture ⁽²⁾	—	—	(187)	—
Acquisitions	—	—	—	2
Foreign exchange impact and other	—	—	77	(52)
Benefit obligation at end of period ⁽¹⁾	<u>\$ 9</u>	<u>\$ 10</u>	<u>\$ 875</u>	<u>\$ 896</u>
Change in plan assets				
Fair value of plan assets at beginning of period	\$—	\$ 322	\$ 594	\$ 642
Actual return on plan assets	—	27	87	3
Employer and participant contributions	1	116	27	28
Benefits paid	(1)	(179)	(34)	(43)
Annuity Premium Transfer	—	(276)	—	—
Foreign exchange impact and other	—	(10)	61	(36)
Fair value of plan assets at end of period	<u>\$—</u>	<u>\$ —</u>	<u>\$ 735</u>	<u>\$ 594</u>
Funded status at end of period	<u>\$ (9)</u>	<u>\$ (10)</u>	<u>\$(140)</u>	<u>\$(302)</u>
Amounts recognized on the balance sheet				
Assets	\$—	\$ —	\$ 54	\$ 49
Current liabilities ⁽²⁾	(1)	(1)	(9)	(162)
Long-term liabilities	(8)	(9)	(185)	(189)
Total	<u>\$ (9)</u>	<u>\$ (10)</u>	<u>\$(140)</u>	<u>\$(302)</u>

(1) The benefit obligation is the projected benefit obligation.

(2) The divestiture relates to the contribution of the Company's German pharmaceutical wholesale business to a joint venture in 2021 as discussed in more detail in Financial Note 3, "Held for Sale." These amounts were included within current liabilities and totaled \$151 million at March 31, 2020.

The actuarial loss of \$89 million in 2021 was primarily attributable to:

- *Discount rates* (\$32 million loss): The weighted average discount rate for Non-U.S. plans decreased from 2.03% as of March 31, 2020 to 1.89% as of March 31, 2021.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

- *Demographic and assumption changes* (\$57 million loss): This represents the difference between actual and estimated participant data and demographic factors, including items such as inflation assumption, compensation changes, mortality, and other changes including losses related to the divestiture in 2021.

The actuarial gain of \$36 million in 2020 was primarily attributable to:

- *Discount rates* (\$6 million loss): The weighted average discount rate for Non-U.S. plans decreased from 2.13% as of March 31, 2019 to 2.03% as of March 31, 2020.
- *Demographic and assumption changes* (\$42 million gain): This represents the difference between actual and estimated participant data and demographic factors, including items such as inflation assumption, compensation changes mortality, and other changes. The difference between actual inflation and assumed inflation in our U.K. pension plans resulted in a gain of \$23 million.

The following table provides the projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for all the Company's pension plans, including accumulated benefit obligation in excess of plan assets:

	U.S. Plans March 31,		Non-U.S. Plans March 31,	
	2021	2020	2021	2020
<i>(In millions)</i>				
Projected benefit obligation	\$ 9	\$ 10	\$875	\$896
Accumulated benefit obligation	9	10	847	856
Fair value of plan assets	—	—	735	594

Amounts recognized in accumulated other comprehensive income consist of:

	U.S. Plans March 31,		Non-U.S. Plans March 31,	
	2021	2020	2021	2020
<i>(In millions)</i>				
Net actuarial loss	\$ 1	\$ 1	\$120	\$149
Prior service credit	—	—	(2)	(3)
Total	\$ 1	\$ 1	\$118	\$146

Other changes in accumulated other comprehensive income were as follows:

	U.S. Plans Years Ended March 31,			Non-U.S. Plans Years Ended March 31,		
	2021	2020	2019	2021	2020	2019
<i>(In millions)</i>						
Net actuarial loss (gain)	\$—	\$ (3)	\$ 8	\$ (9)	\$ (24)	\$ 42
Amortization of:						
Net actuarial loss	—	(129)	(9)	(35)	(6)	(5)
Prior service credit (cost)	—	—	—	1	—	—
Foreign exchange impact and other	—	—	—	15	(6)	(12)
Total recognized in other comprehensive loss (income)	\$—	\$(132)	\$ (1)	\$(28)	\$(36)	\$ 25

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

The Company recognized \$33 million in actuarial losses for pension plans to stockholders' equity in 2021 as a result of the contribution of the Company's German pharmaceutical wholesale business to a joint venture as discussed in more detail in Financial Note 3, "Held for Sale." The Company recognized \$127 million in actuarial losses for the pension plans to stockholders' equity in 2020 as a result of \$116 million from the termination of the U.S. defined benefit pension plan and \$11 million from the settlement from the executive benefit retirement plan for a retired executive.

Projected benefit obligations related to the Company's unfunded U.S. plans were \$9 million and \$10 million at March 31, 2021 and 2020, respectively. Pension obligations for its unfunded plans are based on the recommendations of independent actuaries. Projected benefit obligations relating to the Company's unfunded non-U.S. plans were \$162 million and \$298 million at March 31, 2021 and 2020, respectively. Funding obligations for its non-U.S. plans vary based on the laws of each non-U.S. jurisdiction.

Expected benefit payments for the Company's pension plans are as follows: \$43 million, \$36 million, \$37 million, \$36 million and \$38 million for 2022 to 2026 and \$202 million for 2027 through 2031. Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service. Expected contributions to be made for the Company's pension plans are \$24 million for 2022.

Weighted-average assumptions used to estimate the net periodic pension expense and the actuarial present value of benefit obligations were as follows:

	U.S. Plans Years Ended March 31,			Non-U.S. Plans Years Ended March 31,		
	2021	2020	2019	2021	2020	2019
Net periodic pension expense						
Discount rates	3.08%	3.66%	3.83%	1.89%	2.03%	2.35%
Rate of increase in compensation	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾	3.20	2.93	3.13
Expected long-term rate of return on plan assets	N/A	4.00	5.25	2.56	3.01	3.71
Benefit obligation						
Discount rates	2.35%	3.08%	3.65%	1.89%	2.03%	2.13%
Rate of increase in compensation	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾	3.20	2.93	3.18

(1) This assumption is no longer needed in actuarial valuations as U.S. plans are frozen or have fixed benefits for the remaining active participants.

The Company's defined benefit pension plan liabilities are valued using a discount rate based on a yield curve developed from a portfolio of high quality corporate bonds rated AA or better whose maturities are aligned with the expected benefit payments of its plans. For March 31, 2021, the Company's U.S. defined benefit liabilities are valued using a weighted-average discount rate of 2.35%, which represents a decrease of 73 basis points from its 2020 weighted-average discount rate of 3.08%. The Company's non-U.S. defined benefit pension plan liabilities are valued using a weighted-average discount rate of 1.89%, which represents a decrease of 14 basis points from its 2020 weighted-average discount rate of 2.03%.

Plan Assets

Investment Strategy: For non-U.S. plan assets, the investment strategies are subject to local regulations and the asset/liability profiles of the plans in each individual country. Plan assets of the non-U.S. plans are broadly

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the plans. Plan assets are primarily invested in high-quality corporate and government bond funds and equity securities. Assets are properly diversified to avoid excessive reliance on any particular asset, issuer, or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole.

The Company develops the expected long-term rate of return assumption based on the projected performance of the asset classes in which plan assets are invested. The target asset allocation was determined based on the liability and risk tolerance characteristics of the plans and at times may be adjusted to achieve overall investment objectives.

Fair Value Measurements: The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on unadjusted quoted prices in active markets for identical assets. Level 2 refers to fair values estimated using significant other observable inputs and Level 3 includes fair values estimated using significant unobservable inputs. The following tables represent the Company's pension plan assets as of March 31, 2021 and 2020, using the fair value hierarchy by asset class:

(In millions)	Non-U.S. Plans							
	March 31, 2021				March 31, 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 5	\$—	\$—	\$ 5	\$ 13	\$—	\$—	\$ 13
Equity securities:								
Equity commingled funds	64	117	—	181	53	75	—	128
Fixed income securities:								
Government securities	5	144	—	149	6	139	—	145
Corporate bonds	6	30	—	36	14	17	—	31
Fixed income commingled funds	51	222	1	274	107	101	—	208
Other:								
Real estate funds and Other	31	4	3	38	22	2	3	27
Total	<u>\$162</u>	<u>\$517</u>	<u>\$ 4</u>	<u>\$683</u>	<u>\$215</u>	<u>\$334</u>	<u>\$ 3</u>	<u>\$552</u>
Assets held at NAV practical expedient ⁽¹⁾								
Equity commingled funds				10				8
Other				42				34
Total plan assets				<u>\$735</u>				<u>\$594</u>

(1) Equity commingled funds, fixed income commingled funds, real estate funds, and other investments for which fair value is measured using the NAV per share as a practical expedient are not leveled within the fair value hierarchy and are included as a reconciling item to total investments.

Cash and cash equivalents — Cash and cash equivalents include short-term investment funds that maintain daily liquidity and aim to have constant unit values of \$1.00. The funds invest in short-term fixed income securities and other securities with debt-like characteristics emphasizing short-term maturities and high credit quality. Directly held cash and cash equivalents are classified as Level 1 investments. Cash and cash equivalents include money market funds and other commingled funds, which have daily net asset values derived from the underlying securities; these are classified as Level 1 investments.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Equity commingled funds — Some equity investments are held in commingled funds, which have daily net asset values derived from quoted prices for the underlying securities in active markets; these are classified as Level 1 or Level 2 investments.

Fixed income securities — Government securities consist of bonds and debentures issued by central governments or federal agencies; corporate bonds consist of bonds and debentures issued by corporations. Inputs to the valuation methodology include quoted prices for similar assets in active markets, and inputs that are observable for the asset, either directly or indirectly, for substantially the full term of the asset. Multiple prices and price types are obtained from pricing vendors whenever possible, enabling cross-provider price validations. Fixed income securities are generally classified as Level 1 or Level 2 investments.

Fixed income commingled funds — Some fixed income investments are held in exchange traded or commingled funds, which have daily net asset values derived from the underlying securities; these are classified as Level 1, 2, or 3 investments.

Real estate funds — The value of the real estate funds is reported by the fund manager and is based on a valuation of the underlying properties. Inputs used in the valuation include items such as cost, discounted future cash flows, independent appraisals, and market based comparable data. The real estate funds are classified as Level 1, 2, or 3 investments.

Other — At March 31, 2021 and 2020, this includes \$36 million and \$29 million, respectively, of plan asset value relating to the SPK. In principle, the SPK is organized as a pay-as-you-go system guaranteed by the Norwegian government as it holds no Company-owned assets to back the pension liabilities. The Company pays a pension premium used to fund the plan, which is paid directly to the Norwegian government who establishes an account for each participating employer to keep track of the financial status of the plan, including managing the contributions and the payments. Further, the investment return credited to this account is determined annually by the SPK based on the performance of long-term government bonds.

The activity attributable to Level 3 plan assets was not material for the years ended March 31, 2021 and 2020.

Multiemployer Plans

The Company contributes to a number of multiemployer pension plans under the terms of collective-bargaining agreements that cover union-represented employees in the U.S. In 2017, it also contributed to the Pensjonsordningen for Apoteketaten (“POA”), a mandatory multiemployer pension scheme for its pharmacy employees in Norway, managed by the association of Norwegian Pharmacies.

The risks of participating in these multiemployer plans are different from single-employer pension plans in the following aspects: (i) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers; (ii) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and (iii) if the Company chooses to stop participating in some of its multiemployer plans, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Actions taken by other participating employers may lead to adverse changes in the financial condition of a multiemployer benefit plan and the Company’s withdrawal liability and contributions may increase.

Contributions and amounts accrued for U.S. Plans were not material for the years ended March 31, 2021, 2020, and 2019. Contributions to the POA for non-U.S. Plans exceeding 5% of total plan contributions

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

were \$22 million, \$17 million, and \$27 million in 2021, 2020, and 2019, respectively. Based on actuarial calculations, the Company estimates the funded status for its non-U.S. Plans to be approximately 78% as of March 31, 2021. No amounts were accrued for liability associated with the POA as the Company has no intention to withdraw from the plan.

Defined Contribution Plans

The Company has a contributory retirement savings plan (“RSP”) for U.S. eligible employees. Eligible employees may contribute to the RSP up to 75% of their eligible compensation on a pre-tax or post-tax basis not to exceed IRS limits. The Company makes matching contributions in an amount equal to 100% of the employee’s first 3% of pay contributed and 50% for the next 2% of pay contributed. The Company also may make an additional annual matching contribution for each plan year to enable participants to receive a full match based on their annual contribution. The Company also contributed to non-U.S. plans that are available in certain countries. Contribution expenses for the RSP and non-U.S. plans were \$102 million, \$102 million, and \$92 million for the years ended March 31, 2021, 2020, and 2019, respectively.

Postretirement Benefits

The Company maintains a number of postretirement benefits, primarily consisting of healthcare and life insurance (“welfare”) benefits, for certain eligible U.S. employees. Eligible employees consist of those who retired before March 31, 1999 and those who retired after March 31, 1999, but were an active employee as of that date, after meeting other age-related criteria. It also provides postretirement benefits for certain U.S. executives. Defined benefit plan obligations are measured as of the Company’s fiscal year-end. The net periodic (credit) expense for the Company’s postretirement welfare benefits was not material for the years ended March 31, 2021, 2020, and 2019. The benefit obligation at March 31, 2021 and 2020 was \$64 million and \$65 million, respectively.

16. Hedging Activities

In the normal course of business, the Company is exposed to interest rate and foreign currency exchange rate fluctuations. At times, the Company limits these risks through the use of derivatives such as cross-currency swaps, foreign currency forward contracts, and interest rate swaps. In accordance with the Company’s policy, derivatives are only used for hedging purposes. It does not use derivatives for trading or speculative purposes.

Foreign currency exchange risk

The Company conducts its business worldwide in U.S. dollars and the functional currencies of its foreign subsidiaries, including Euro, British pound sterling, and Canadian dollars. Changes in foreign currency exchange rates could have a material adverse impact on the Company’s financial results that are reported in U.S. dollars. The Company is also exposed to foreign currency exchange rate risk related to its foreign subsidiaries, including intercompany loans denominated in non-functional currencies. The Company has certain foreign currency exchange rate risk programs that use foreign currency forward contracts and cross-currency swaps. These forward contracts and cross-currency swaps are generally used to offset the potential income statement effects from intercompany loans and other obligations denominated in non-functional currencies. These programs reduce but do not entirely eliminate foreign currency exchange rate risk.

Non-Derivative Instruments Designated as Hedges

At March 31, 2021 and 2020, the Company had €1.7 billion of Euro-denominated notes designated as non-derivative net investment hedges. These hedges are utilized to hedge portions of the Company’s net

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

investments in non-U.S. subsidiaries against the effect of exchange rate fluctuations on the translation of foreign currency balances to the U.S. dollar. For all notes that are designated as net investment hedges and meet effectiveness requirements, the changes in carrying value of the notes attributable to the change in spot rates are recorded in foreign currency translation adjustments in “Accumulated other comprehensive loss” in the Consolidated Statements of Stockholders’ Equity where they offset foreign currency translation gains and losses recorded on the Company’s net investments. To the extent foreign currency-denominated notes designated as net investment hedges are ineffective, changes in carrying value attributable to the change in spot rates are recorded in earnings. In December 2019, the Company prospectively de-designated from net investment hedges €250 million of its Euro-denominated notes which matured in February 2020.

At March 31, 2019, the Company also had £450 million British pound sterling-denominated notes designated as non-derivative net investment hedges. On September 30, 2019, the Company de-designated its £450 million British pound sterling-denominated notes prospectively from net investment hedges as the hedging relationship ceased to be effective.

Gains or losses from net investment hedges recorded within Other comprehensive income were losses of \$118 million in 2021 and gains of \$39 million and \$259 million in 2020 and 2019, respectively. Ineffectiveness on the Company’s non-derivative net investment hedges during 2020 resulted in gains of \$34 million which were recorded in earnings in “Other income, net” in the Consolidated Statements of Operations. There was no ineffectiveness in the Company’s net investment hedges for the years ended March 31, 2021 and 2019.

Derivatives Designated as Hedges

At March 31, 2021 and 2020, the Company had cross-currency swaps designated as net investment hedges with a total gross notional amount of \$500 million and \$1.5 billion Canadian dollars, respectively. Under the terms of the cross-currency swap contracts, the Company agrees with third parties to exchange fixed interest payments in one currency for fixed interest payments in another currency at specified intervals and to exchange principal in one currency for principal in another currency, calculated by reference to agreed-upon notional amounts. These swaps are utilized to hedge portions of the Company’s net investments denominated in Canadian dollars against the effect of exchange rate fluctuations on the translation of foreign currency balances to the U.S. dollar. The changes in the fair value of these derivatives attributable to the changes in spot currency exchange rates and differences between spot and forward interest rates are recorded in “Accumulated other comprehensive loss” in the Consolidated Statements of Stockholders’ Equity where they offset foreign currency translation gains and losses recorded on the Company’s net investments denominated in Canadian dollars. To the extent cross-currency swaps designated as hedges are ineffective, changes in carrying value attributable to the change in spot rates are recorded in earnings. There was no ineffectiveness in the Company’s net investment hedges for the years ended March 31, 2021, 2020, and 2019. In 2021, cross-currency swaps with an aggregate gross notional amount of \$999 million Canadian dollars matured and the remaining cross-currency swaps will mature in November 2024.

At March 31, 2019, the Company also had cross-currency swaps designated as net investment hedges with a total gross notional amount of £932 million British pound sterling. In 2020, the Company terminated these swaps due to ineffectiveness in its British pound sterling hedging program that arose due to 2019 impairments of goodwill and certain long-lived assets in the U.K. businesses. Proceeds from the termination of these swaps totaled \$84 million and resulted in a settlement gain of \$34 million in 2020. This gain was recorded in earnings in “Other income, net” in the Consolidated Statements of Operations.

Gains or losses from the Company’s cross-currency swaps designated as net investment hedges recorded in Other comprehensive income were losses of \$119 million in 2021 and gains of \$76 million and \$53 million in

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

2020 and 2019, respectively. There was no ineffectiveness in the Company's hedges for the years ended March 31, 2021 and 2019.

On September 30, 2019, the Company entered into a number of cross-currency swaps designated as fair value hedges with total notional amounts of £450 million British pound sterling. Under the terms of the cross-currency swap contracts, the Company agreed with third parties to exchange fixed interest payments in British pound sterling for floating interest payments in U.S. dollars based on three-month LIBOR plus a spread. These swaps are utilized to hedge the changes in the fair value of the underlying £450 million British pound sterling notes resulting from changes in benchmark interest rates and foreign exchange rates. The changes in the fair value of these derivatives, which are designated as fair value hedges, and the offsetting changes in the fair value of the hedged notes are recorded in earnings. Gains from these fair value hedges recorded in earnings were largely offset by the losses recorded in earnings related to these notes. The swaps will mature in February 2023.

From time to time, the Company also enters into cross-currency swaps to hedge intercompany loans denominated in non-functional currencies. For cross-currency swap transactions, the Company agrees with third parties to exchange fixed interest payments in one currency for fixed interest payments in another currency at specified intervals and to exchange principal in one currency for principal in another currency, calculated by reference to agreed-upon notional amounts. These cross-currency swaps are designed to reduce the income statement effects arising from fluctuations in foreign exchange rates and have been designated as cash flow hedges. At March 31, 2021 and 2020, the Company had cross-currency swaps with total gross notional amounts of approximately \$2.6 billion and \$2.9 billion, respectively, which are designated as cash flow hedges. These swaps will mature between May 2021 and January 2024.

For forward contracts and cross-currency swaps that are designated as cash flow hedges, the effective portion of changes in the fair value of the hedges is recorded in Accumulated other comprehensive loss and reclassified into earnings in the same period in which the hedged transaction affects earnings. Changes in fair values representing hedge ineffectiveness are recognized in current earnings.

On April 27, 2020, the Company entered into forward starting interest rate swaps designated as cash flow hedges, with combined notional amounts of \$500 million and €600 million, to hedge the variability of future benchmark interest rates on planned bond issuances. Under the terms of the forward interest rate swap contracts, the Company agreed with third parties to pay fixed interest payments for the \$500 million swaps for floating interest payments in U.S. dollars based on three-month LIBOR and to pay fixed interest payments for floating interest payments in Euros based on six-month Euro Interbank Offered Rate ("EURIBOR") for the €600 million swaps. The \$500 million swaps were terminated upon the issuance of the 2025 Notes in November 2020. The settlement loss on the swaps was not material and will be amortized on a straight-line basis as interest expense over the five-year life of the 2025 Notes. Refer to Financial Note 13, "Debt and Financing Activities," for more information.

Gains or losses from cash flow hedges recorded in Other comprehensive income were losses of \$42 million in 2021 and gains of \$98 million and \$28 million in 2020 and 2019, respectively. Gains or losses reclassified from Accumulated other comprehensive income and recorded in "Selling, distribution, general, and administrative expenses" in the Consolidated Statements of Operations were not material in 2021, 2020, and 2019. There was no ineffectiveness in the Company's cash flow hedges for the years ended March 31, 2021, 2020, and 2019.

Derivatives Not Designated as Hedges

Derivative instruments not designated as hedges are marked-to-market at the end of each accounting period with the change in value included in earnings.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

The Company has a number of forward contracts to hedge the Euro against cash flows denominated in British pound sterling and other European currencies. At March 31, 2021 and 2020, the total gross notional amounts of these contracts were \$39 million and \$29 million, respectively. These contracts will predominately mature between April 2021 and December 2021 and none of these contracts were designated for hedge accounting. Changes in the fair values for contracts not designated as hedges are recorded directly into earnings in “Selling, distribution, general, and administrative expenses” in the Consolidated Statements of Operations. Changes in the fair values were not material in 2021, 2020, and 2019. Gains or losses from these contracts are largely offset by changes in the value of the underlying intercompany obligations.

In 2020, the Company also entered into a number of forward contracts and swaps to offset a portion of the earnings impacts from the ineffectiveness of the non-derivative net investment hedges discussed above. These contracts matured through January 2020 and none of these contracts were designated for hedge accounting. In December 2019, the Company entered into a series of forward contracts with a total notional amount of €250 million to offset the earnings impact from its Euro-denominated notes. These contracts and the notes against which they are offsetting matured in February 2020 and were not designated for hedge accounting. Changes in the fair value for contracts not designated as hedges are recorded directly in earnings. In 2020, losses of \$44 million were recorded in earnings in “Other income, net” in the Consolidated Statements of Operations, which offset the ineffectiveness on the Company’s non-derivative net investment hedges noted above.

Information regarding the fair value of derivatives on a gross basis is as follows:

(In millions)	Balance Sheet Caption	March 31, 2021			March 31, 2020		
		Fair Value of Derivative		U.S. Dollar Notional	Fair Value of Derivative		U.S. Dollar Notional
		Asset	Liability		Asset	Liability	
Derivatives designated for hedge accounting							
Cross-currency swaps (current)	Prepaid expenses and other/Other accrued liabilities	\$ 4	\$ 47	\$ 826	\$112	\$ 19	\$1,279
Cross-currency swaps (non-current)	Other non-current assets/liabilities	72	92	2,663	182	—	3,313
Forward starting interest rate swaps (current)	Other accrued liabilities	—	7	704	—	—	—
Total		<u>\$ 76</u>	<u>\$146</u>		<u>\$294</u>	<u>\$ 19</u>	
Derivatives not designated for hedge accounting							
Foreign exchange contracts (current)	Prepaid expenses and other	\$—	\$—	\$ 29	\$ 2	\$—	\$ 24
Foreign exchange contracts (current)	Other accrued liabilities	—	1	10	—	—	5
Total		<u>\$—</u>	<u>\$ 1</u>		<u>\$ 2</u>	<u>\$—</u>	

Refer to Financial Note 17, “Fair Value Measurements,” for more information on these recurring fair value measurements.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

17. Fair Value Measurements

The Company measures certain assets and liabilities at fair value in accordance with Accounting Standards Codification (“ASC”) Topic 820, *Fair Value Measurements and Disclosures*. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 — quoted prices in active markets for identical assets or liabilities.

Level 2 — significant other observable market-based inputs.

Level 3 — significant unobservable inputs for which little or no market data exists and requires considerable assumptions that are significant to the fair value measurement.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Cash and cash equivalents at March 31, 2021 and 2020 included investments in money market funds of \$1.6 billion and \$2.0 billion, respectively, which are reported at fair value. The fair value of money market funds was determined using quoted prices for identical investments in active markets, which are considered to be Level 1 inputs under the fair value measurements and disclosure guidance. The carrying value of all other cash equivalents approximates their fair value due to their relatively short-term nature. Fair values for the Company’s marketable securities were not material at March 31, 2021 and 2020.

Fair values of the Company’s interest rate swaps and foreign currency forward contracts were determined using observable inputs from available market information, including quoted interest rates, foreign currency exchange rates and other observable inputs from available market information. These inputs are considered Level 2 under the fair value measurements and disclosure guidance, and may not be representative of actual values that could have been realized or that will be realized in the future. Refer to Financial Note 16, “Hedging Activities,” for fair value and other information on the Company’s derivatives including interest rate swaps, forward foreign currency contracts and cross-currency swaps.

The Company holds investments in equity securities of U.S. growth stage companies that address both current and emerging business challenges in the healthcare industry and which had carrying values of \$269 million and \$170 million at March 31, 2021 and 2020, respectively. These investments primarily consist of equity securities without readily determinable fair values and are included in “Other non-current assets” in the Consolidated Balance Sheets. During 2021, several of the Company’s investments in equity securities without readily determinable fair values experienced transactions which resulted in changes in the observable price of those securities, while others were converted into shares of public common stock through initial public offerings and an acquisition. The Company exited most of its investments in publicly traded shares in the fourth quarter of 2021. Net gains related to the Company’s investments in these equity securities were approximately \$133 million for the year ended March 31, 2021. These gains were recorded in “Other income, net” in the Consolidated Statements of Operations. There were no other material changes in the carrying value of these investments during the year ended March 31, 2021. The carrying value of publicly traded investments was determined using quoted prices for identical investments in active markets and are considered to be Level 1 inputs.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

In addition to assets and liabilities that are measured at fair value on a recurring basis, the Company’s assets and liabilities are also subject to nonrecurring fair value measurements. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

At March 31, 2021, assets measured at fair value on a nonrecurring basis included long-lived assets of the Company's International segment and goodwill of the Company's Europe Retail Pharmacy reporting unit within the International segment.

At March 31, 2020, assets measured at fair value on a nonrecurring basis included long-lived assets of the Company's International segment. Refer to Financial Note 4, "Restructuring, Impairment, and Related Charges" and Financial Note 12, "Goodwill and Intangible Assets, Net," for more information.

The aforementioned investments in equity securities of U.S. growth stage companies include the carrying value of investments without readily determinable fair values, which were determined using a measurement alternative and are recorded at cost less impairment, plus or minus any changes in observable price from orderly transactions of the same or similar security of the same issuer. These inputs are considered Level 2 under the fair value measurements and disclosure guidance and may not be representative of actual values that could have been realized or that will be realized in the future.

There were no liabilities measured at fair value on a nonrecurring basis at March 31, 2021 and 2020.

Other Fair Value Disclosures

At March 31, 2021 and 2020, the carrying amounts of cash, certain cash equivalents, restricted cash, marketable securities, receivables, drafts and accounts payable, short-term borrowings, and other current liabilities approximated their estimated fair values because of the short maturity of these financial instruments.

The Company determines the fair value of commercial paper using quoted prices in active markets for identical instruments, which are considered Level 1 inputs under the fair value measurements and disclosure guidance.

The Company's long-term debt is also recorded at cost. The carrying value and fair value of the Company's long-term debt was as follows:

	March 31, 2021		March 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
(In millions)				
Long-term debt, including current maturities	\$7,148	\$7,785	\$7,387	\$7,792

The estimated fair value of the Company's long-term debt was determined using quoted market prices in a less active market and other observable inputs from available market information, which are considered to be Level 2 inputs, and may not be representative of actual values that could have been realized or that will be realized in the future.

Goodwill

Fair value assessments of the reporting unit and the reporting unit's net assets, which are performed for goodwill impairment tests, are considered a Level 3 measurement due to the significance of unobservable inputs developed using company-specific information. The Company considered a market approach as well as an income approach using a DCF model to determine the fair value of the reporting unit.

Refer to Financial Note 12, "Goodwill and Intangible Assets, Net," for more information regarding goodwill impairment charges recorded for certain reporting units during 2021 and 2019.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Long-lived Assets

The Company utilizes multiple approaches including the DCF model and market approaches for estimating the fair value of intangible assets. The future cash flows used in the analysis are based on internal cash flow projections from its long-range plans and include significant assumptions by management. Accordingly, the fair value assessment of the long-lived assets is considered a Level 3 fair value measurement.

The Company measures certain long-lived and intangible assets at fair value on a nonrecurring basis when events occur that indicate an asset group may not be recoverable. If the carrying amount of an asset group is not recoverable, an impairment charge is recorded to reduce the carrying amount by the excess over its fair value. Refer to Financial Note 4, “Restructuring, Impairment, and Related Charges” under the heading “*Long-Lived Assets Impairments*” for more information.

18. Financial Guarantees and Warranties

Financial Guarantees

The Company has agreements with certain of its customers’ financial institutions, primarily in its International segment, under which it has guaranteed the repurchase of its customers’ inventory or its customers’ debt in the event these customers are unable to meet their obligations to those financial institutions. For the Company’s inventory repurchase agreements, among other requirements, inventories must be in resalable condition and any repurchase would be at a discount. The inventory repurchase agreements mostly relate to certain Canadian customers and generally range from one to two years. Customers’ debt guarantees generally range from one to ten years and are primarily provided to facilitate financing for certain customers. The majority of the Company’s customers’ debt guarantees are secured by certain assets of the customer. At March 31, 2021, the maximum amounts of inventory repurchase guarantees and customers’ debt guarantees were \$329 million and \$143 million, respectively, of which the Company has not accrued any material amounts. The expirations of these financial guarantees are as follows: \$268 million, \$26 million, \$33 million, \$11 million, and \$15 million from 2022 through 2026 and \$119 million thereafter.

At March 31, 2021, the Company’s banks and insurance companies have issued \$146 million of standby letters of credit and surety bonds, which were issued on the Company’s behalf primarily related to its customer contracts and in order to meet the security requirements for statutory licenses and permits, court and fiduciary obligations, and its workers’ compensation and automotive liability programs.

The Company’s software license agreements generally include certain provisions for indemnifying customers against liabilities if its software products infringe a third party’s intellectual property rights. To date, the Company has not incurred any material costs as a result of such indemnification agreements and has not accrued any liabilities related to such obligations.

In conjunction with certain transactions, primarily divestitures, the Company may provide routine indemnification agreements (such as retention of previously existing environmental, tax, and employee liabilities) whose terms vary in duration and often are not explicitly defined. Where appropriate, obligations for such indemnifications are recorded as liabilities. Because the amounts of these indemnification obligations often are not explicitly stated, the overall maximum amount of these commitments cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of divestiture, the Company has historically not made material payments as a result of these indemnification provisions.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Warranties

In the normal course of business, the Company provides certain warranties and indemnification protection for its products and services. For example, the Company provides warranties that the pharmaceutical and medical-surgical products it distributes are in compliance with the U.S. Food, Drug and Cosmetic Act and other applicable laws and regulations. It has received the same warranties from its suppliers, which customarily are the manufacturers of the products. In addition, the Company has indemnity obligations to its customers for these products, which have also been provided from its suppliers, either through express agreement or by operation of law. Accrued warranty costs were not material to the Consolidated Balance Sheets.

19. Commitments and Contingent Liabilities

In addition to commitments and obligations incurred in the ordinary course of business, the Company is subject to a variety of claims and legal proceedings, including claims from customers and vendors, pending and potential legal actions for damages, governmental investigations, and other matters. The Company and its affiliates are parties to the legal claims and proceedings described below. The Company is vigorously defending itself against those claims and in those proceedings. Significant developments in those matters are described below. If the Company is unsuccessful in defending, or if it determines to settle, any of these matters, it may be required to pay substantial sums, be subject to injunction and/or be forced to change how it operates its business, which could have a material adverse impact on its financial position or results of operations.

Unless otherwise stated, the Company is unable to reasonably estimate the loss or a range of possible loss for the matters described below. Often, the Company is unable to determine that a loss is probable, or to reasonably estimate the amount of loss or a range of loss, for a claim because of the limited information available and the potential effects of future events and decisions by third parties, such as courts and regulators, that will determine the ultimate resolution of the claim. Many of the matters described are at preliminary stages, raise novel theories of liability or seek an indeterminate amount of damages. It is not uncommon for claims to remain unresolved over many years. The Company reviews loss contingencies at least quarterly to determine whether the likelihood of loss has changed and whether it can make a reasonable estimate of the loss or range of loss. When the Company determines that a loss from a claim is probable and reasonably estimable, it records a liability for an estimated amount. The Company also provides disclosure when it is reasonably possible that a loss may be incurred or when it is reasonably possible that the amount of a loss will exceed its recorded liability.

I. Litigation and Claims Involving Distribution of Controlled Substances

The Company and its affiliates are defendants in many cases asserting claims related to distribution of controlled substances. They are named as defendants along with other pharmaceutical wholesale distributors, pharmaceutical manufacturers, and retail pharmacy chains. The plaintiffs in these actions include state attorneys general, county and municipal governments, tribal nations, hospitals, health and welfare funds, third-party payors, and individuals. These actions have been filed in state and federal courts throughout the U.S., and in Puerto Rico and Canada. They seek monetary damages and other forms of relief based on a variety of causes of action, including negligence, public nuisance, unjust enrichment, and civil conspiracy, as well as alleging violations of the Racketeer Influenced and Corrupt Organizations Act ("RICO"), state and federal controlled substances laws, and other statutes.

Since December 5, 2017, nearly all such cases pending in federal district courts have been transferred for consolidated pre-trial proceedings to a multi-district litigation ("MDL") in the United States District Court for the Northern District of Ohio captioned *In re: National Prescription Opiate Litigation*, Case No. 17-md-2804. At present, there are approximately 2,900 cases under the jurisdiction of the MDL court.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Three cases involving McKesson that were previously part of the federal MDL have been remanded to other federal courts for discovery and trial. On January 14, 2020, the Judicial Panel on Multidistrict Litigation finalized its Conditional Remand Order, ordering that the cases brought by Cabell County, West Virginia and the City of Huntington, West Virginia be remanded to the U.S. District Court for the Southern District of West Virginia. Trial in that case began on May 3, 2021. These two West Virginia plaintiffs are not expected to participate in any broader multistate resolution of opioid-related claims. On February 5, 2020, the case brought by the City and County of San Francisco was remanded to the U.S. District Court for the Northern District of California; trial has been set for December 6, 2021. Also on February 5, 2020, the case brought by the Cherokee Nation was remanded by the MDL court to the U.S. District Court for the Eastern District of Oklahoma. The Cherokee Nation is not expected to participate in any broader multistate resolution of opioid-related claims.

The Company is also named in approximately 300 similar state court cases pending in 38 states plus Puerto Rico, along with 3 cases in Canada. These include actions filed by 26 state attorneys general, and some by or on behalf of individuals, including wrongful death lawsuits, and putative class action lawsuits brought on behalf of children with neonatal abstinence syndrome due to alleged exposure to opioids in utero. Trial dates have been set in several of these state court cases. For example, trial in the Supreme Court of New York, Suffolk County for a case brought by the New York attorney general and two New York county governments, is scheduled to begin in June 2021, the cases brought by the Ohio and Washington attorneys general are scheduled to go to trial in September 2021, and the case brought by the Alabama attorney general is scheduled to go to trial in November 2021.

The Company continues to be involved in discussions with the objective of achieving broad resolution of opioid-related claims of states, their political subdivisions and other government entities (“governmental entities”). The Company is in ongoing, advanced discussions with state attorneys general and plaintiffs’ representatives regarding a framework under which, in order to resolve claims of governmental entities, the three largest U.S. pharmaceutical distributors would pay up to approximately \$21.0 billion over a period of 18 years, with up to approximately \$8.0 billion to be paid by the Company, of which more than 90% is anticipated to be used to remediate the opioids crisis. Most of the remaining amount relates to plaintiffs’ attorneys’ fees and costs, and would be payable over a shorter time period. In addition, the proposed framework would require the three distributors, including the Company, to adopt changes to anti-diversion programs.

Under the framework, before the distributors determine whether to enter into any final settlement, they would assess the sufficiency of the scope of settlement, based in part on the number and identities of the governmental entities that would participate in any such settlement. The framework contemplates that if certain governmental entities do not agree to a settlement under the framework, but the distributors nonetheless concluded that there was sufficient participation to warrant the settlement, there would be a corresponding reduction in the amount due from the Company to account for the unresolved claims of the governmental entities that do not participate. Those non-participating governmental entities would be entitled to pursue their claims against the Company and other defendants.

The Company disclosed in its financial statements for the quarter ended December 31, 2020 its determination that discussions under that framework reached a stage at which a broad settlement of opioid claims by governmental entities was probable, and for which the loss could be reasonably estimated.

As a result of that conclusion, and its assessment of certain other opioid-related claims, the Company recorded a charge of \$8.1 billion (\$6.8 billion after-tax) within “Claims and litigation charges, net” in the Consolidated Statements of Operations related to its share of the settlement framework described above, as well as those certain other opioid-related claims. There was no change to the estimated liability as of March 31, 2021.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

In light of the uncertainties, as described below, of the timing of amounts that would be paid with respect to these charges, they were recorded in “Long-term litigation liabilities” in the Company’s Consolidated Balance Sheet as of March 31, 2021. In addition, for the same reasons, the amount of loss that the Company ultimately might incur may differ materially from the amounts accrued.

Discussions with attorneys general and other parties continue. If the negotiating parties agree on terms under the framework for a broad resolution of claims of governmental entities, then those potential terms would need to be agreed to by numerous other state and local governments before an agreement could be accepted by the Company and finalized. In some cases, discovery has been paused during the parties’ discussions. While the Company continues to be involved in discussions regarding a potential broad settlement framework, the Company also continues to prepare for trial in these pending matters. The Company believes that it has valid defenses to the claims pending against it, and it intends to vigorously defend against all such claims if acceptable settlement terms are not achieved.

Although the vast majority of opioid claims have been brought by governmental entities in the U.S., the Company is also a defendant in cases brought in the U.S. by private plaintiffs, such as hospitals, health and welfare funds, third-party payors, and individuals, as well as 3 cases brought by governmental entities in Canada. These claims, and those of private entities generally, are not included in the settlement framework for governmental entities, or in the charges recorded by the Company, described above. The Company believes it has valid legal defenses in these matters and intends to mount a vigorous defense. The Company has not concluded a loss is probable in any of these matters; nor is the amount of any loss reasonably estimable.

Because of the many uncertainties associated with any potential settlement arrangement or other resolution of all of these opioid-related litigation matters, including the uncertain scope of participation by governmental entities in any potential settlement under the framework described above, the Company is not able to reasonably estimate the upper or lower ends of the range of ultimate possible loss for all opioid-related litigation matters. An adverse judgment or negotiated resolution in any of these matters could have a material adverse impact on the Company’s financial position, cash flows or liquidity, or results of operations.

On August 8, 2018, the Company was served with a *qui tam* complaint pending in the United States District Court for the District of Massachusetts alleging that the Company violated the federal False Claims Act and various state false claims acts due to the alleged failure of the Company and other defendants to report providers who were engaged in diversion of controlled substances. *United States ex rel. Manchester v. Purdue Pharma, L.P., et al.*, Case No. 1-16-cv-10947. On August 22, 2018, the United States filed a motion to dismiss. The relator died, and on February 25, 2019 the court entered an order staying the matter until a proper party can be substituted, and providing that if no party is substituted within 90 days of February 25, 2019, the case would be dismissed. In April 2019, the widow of the relator filed a motion to substitute their daughter as the relator; the United States and defendants opposed this substitution request. The motion remains pending and the case remains stayed.

In December 2019, the Company was served with two *qui tam* complaints filed by the same two relators alleging violations of the federal False Claims Act, the California False Claims Act, and the California Unfair Business Practices statute based on alleged predicate violations of the Controlled Substances Act and its implementing regulations, *United States ex rel. Kelley*, 19-cv-2233, and *State of California ex rel. Kelley*, CGC-19-576931. The complaints seek relief including treble damages, civil penalties, attorney fees, and costs in unspecified amounts. On February 16, 2021, the court in the federal action dismissed the second amended complaint with prejudice, and the relators appealed the dismissal to the U.S. Court of Appeals for the Ninth Circuit.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Insurance Coverage Litigation

Two cases pending in the Northern District of California were filed against McKesson by its liability umbrella insurers about policies they issued to the Company for the period 1999-2017, AIU Insurance Company and National Union Fire Insurance Company of Pittsburgh, Pa. (together “AIG”) and ACE Property and Casualty Insurance Company (“ACE”). *AIU Insurance Company et al. v. McKesson Corporation*, No. 3:20-cv-07469 (N.D. Cal.) was initiated by AIG in the Northern District of California on October 23, 2020. *Ace Property and Casualty Insurance Company v. McKesson Corporation et al.*, No. 3:20-cv-09356 (N.D. Cal.) was brought by ACE in California state court on November 2, 2020, and was removed by McKesson to federal court, transferred to the Northern District of California, and designated as related to the AIU action. AIG and ACE are seeking declarations that they have no duty to defend or indemnify McKesson in the thousands of lawsuits pending in federal and state courts related to opioids. In both actions, McKesson has asserted claims under the AIG and ACE policies seeking declarations and damages for past and future defense and indemnity costs.

II. Other Litigation and Claims

On May 17, 2013, the Company was served with a complaint filed in the United States District Court for the Northern District of California by True Health Chiropractic Inc., alleging that McKesson sent unsolicited marketing faxes in violation of the Telephone Consumer Protection Act of 1991 (“TCPA”), as amended by the Junk Fax Protection Act of 2005 or JFPA, *True Health Chiropractic Inc., et al. v. McKesson Corporation, et al.*, No. CV-13-02219 (HG). Plaintiffs seek statutory damages from \$500 to \$1,500 per violation plus injunctive relief. True Health Chiropractic later amended its complaint, adding McLaughlin Chiropractic Associates as an additional named plaintiff and McKesson Technologies Inc. as a defendant. Both plaintiffs alleged that defendants violated the TCPA by sending faxes that did not contain notices regarding how to opt out of receiving the faxes. On July 16, 2015, plaintiffs filed a motion for class certification. On August 22, 2016, the court denied plaintiffs’ motion. On July 17, 2018, the United States Court of Appeals for the Ninth Circuit Court affirmed in part and reversed in part the district court’s denial of class certification and remanded the case to the district court for further proceedings. On August 13, 2019, the court granted plaintiffs’ renewed motion for class certification. After class notice and the opt-out period, 9,490 fax numbers remain in the class, representing 48,769 faxes received. On March 5, 2020, McKesson moved to decertify the class and moved for summary judgment on plaintiffs’ claim for treble damages. Plaintiffs’ moved for summary judgment on the same day. On December 24, 2020, the court declined to decertify the class but modified the class definition to distinguish between physical faxes (kept in the class) versus online or e-fax recipients (removed from the class). On March 19, 2021, the court denied summary judgment for plaintiffs on the issue of liability but found that McKesson’s affirmative defense of prior consent fails as a matter of law and precluded McKesson from presenting individualized evidence of consent at trial. On McKesson’s motion for summary judgment, the court demurred and will let the issue of treble damages go to the jury. Trial has been scheduled for October 18, 2021.

On December 29, 2017, two investment funds holding shares in Celesio AG filed a complaint against McKesson Europe Holdings (formerly known as “Dragonfly GmbH & Co KGaA”), a subsidiary of the Company, in a German court in Stuttgart, Germany, *Polygon European Equity Opportunity Master Fund et al. v. McKesson Europe Holdings GmbH & Co. KGaA*, No. 18 O 455/17. On December 30, 2017, four investment funds, which had allegedly entered into swap transactions regarding shares in Celesio AG that would have enabled them to decide whether to accept McKesson Europe Holdings’s takeover offer in its acquisition of Celesio AG, filed a complaint, *Davidson Kempner International (BVI) Ltd. et al. v. McKesson Europe Holdings GmbH & Co. KGaA*, No. 16 O 475/17. The complaints allege that the public tender offer document published by McKesson Europe in its acquisition of Celesio AG incorrectly stated that McKesson Europe’s acquisition of convertible bonds would not be treated as a relevant acquisition of shares for the purposes of triggering minimum pricing considerations under Section 4 of the German Takeover Offer Ordinance. On May 11, 2018, the court in

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Polygon dismissed the claims against McKesson Europe. Plaintiffs appealed this ruling and, on December 19, 2018, the Higher Regional Court (Oberlandesgericht) of Stuttgart confirmed the full dismissal of the *Polygon* matter. Plaintiffs filed a complaint against denial of leave to appeal with the Federal Court of Justice (Bundesgerichtshof), which was rejected on November 17, 2020, making the dismissal final and binding. With no further right to appeal, Plaintiffs filed an objection against the decision of the Federal Court of Justice on November 27, 2020, claiming their right to be heard had been violated. On March 16, 2021, the Federal Court of Justice (Bundesgerichtshof) issued an order granting the *Polygon* plaintiffs leave to appeal. On March 15, 2019, the lower court in *Davidson* similarly dismissed the case. Plaintiffs appealed this ruling and, on October 9, 2019, the Higher Regional Court (Oberlandesgericht) of Stuttgart confirmed the full dismissal of the *Davidson* matter. On November 13, 2019, plaintiffs filed a complaint against denial of leave to appeal with the Federal Court of Justice (Bundesgerichtshof). On March 16, 2021, the Federal Court of Justice (Bundesgerichtshof) issued an order granting the *Davidson* plaintiffs leave to appeal.

On March 5, 2018, the Company's subsidiary, RxC Acquisition Company (d/b/a RxCrossroads), was served with a *qui tam* complaint filed in July 2017 in the United States District Court for the Southern District of Illinois by a relator against RxC Acquisition Company, among others, alleging that UCB, Inc. provided illegal "kickbacks" to providers, including nurse educator services and reimbursement assistance services provided through RxC Acquisition Company, in violation of the Anti-Kickback Statute, the False Claims Act, and various state false claims statutes. *United States ex rel. CIMZNHCA, LLC v. UCB, Inc., et al.*, No. 17-cv-00765. The complaint sought treble damages, civil penalties, and further relief. The United States and the states named in the complaint declined to intervene in the suit. On December 17, 2018, the United States filed a motion to dismiss the complaint in its entirety; this motion was denied on April 15, 2019. On June 7, 2019, the court denied the United States' motion for reconsideration. On July 8, 2019, the United States appealed to the United States Court of Appeals for the Seventh Circuit seeking interlocutory review of the denial of its motion for reconsideration of the denial of the motion to dismiss the complaint. On September 3, 2019, the United States District Court for the Southern District of Illinois stayed the district court proceedings pending the appeal. On August 17, 2020, the Seventh Circuit reversed the district court's decision on the United States' motion to dismiss and remanded the case with instructions that the district court enter judgment for the defendants on the relator's claims under the False Claims Act. The relator sought a re-hearing en banc at the Seventh Circuit, which was denied. The relator's False Claims Act case was dismissed, with judgment entered in favor of the defendants on September 30, 2020. On February 10, 2021, the relator filed a Petition for Writ of Certiorari at the United States Supreme Court seeking review of the Seventh Circuit's ruling.

On April 16, 2013, the Company's subsidiary, U.S. Oncology, Inc. ("USON"), was served with a third amended *qui tam* complaint filed in the United States District Court for the Eastern District of New York by two relators, purportedly on behalf of the United States, 21 states and the District of Columbia, against USON and five other defendants, alleging that USON solicited and received illegal "kickbacks" from Amgen in violation of the Anti-Kickback Statute, the False Claims Act, and various state false claims statutes, and seeking damages, treble damages, civil penalties, attorneys' fees and costs of suit, all in unspecified amounts, *United States ex rel. Piacentile v. Amgen Inc., et al.*, CV 04-3983 (SJ). Previously, the United States declined to intervene in the case as to all allegations and defendants except for Amgen. On September 30, 2013, the court granted the United States' motion to dismiss the claims pled against Amgen. On September 17, 2018, the court granted USON's motion to dismiss the claims pled against it, with leave to amend. On November 16, 2018, the relators filed a fourth amended complaint.

On June 17, 2014, U.S. Oncology Specialty, LP ("USOS") was served with a fifth amended *qui tam* complaint filed in the United States District Court for the Eastern District of New York by a relator alleging that USOS, among others, solicited and received illegal "kickbacks" from Amgen in violation of the Anti-Kickback

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Statute, the federal False Claims Act, and various state false claims statutes, and seeking damages, treble damages, civil penalties, attorneys' fees and costs of suit, all in unspecified amounts, *United States ex rel. Hanks v. Amgen, Inc., et al.*, CV-08-03096 (SJ). Previously, the U.S. declined to intervene in the case as to all allegations and defendants except for Amgen. On September 17, 2018, the court granted USOS's motion to dismiss. Following the relator's appeal, the United States Court of Appeals for the Second Circuit vacated the district court's order and remanded the suit to the district court, directing it to consider the question of whether the suit should be dismissed for lack of jurisdiction. The district court granted the relator leave to amend the complaint for a seventh time. The relator filed the seventh amended complaint on November 30, 2020.

On April 3, 2018, a second amended *qui tam* complaint was filed in the United States District Court for the Eastern District of New York by a relator, purportedly on behalf of the United States, 30 states, the District of Columbia, and two cities against McKesson Corporation, McKesson Specialty Care Distribution Corporation, McKesson Specialty Distribution LLC, McKesson Specialty Care Distribution Joint Venture, L.P., Oncology Therapeutics Network Corporation, Oncology Therapeutics Network Joint Venture, L.P., US Oncology, Inc. and US Oncology Specialty, L.P., alleging that from 2001 through 2010 the defendants repackaged and sold single-dose syringes of oncology medications in a manner that violated the federal False Claims Act and various state and local false claims statutes, and seeking damages, treble damages, civil penalties, attorneys' fees and costs of suit, all in unspecified amounts, *United States ex rel. Omni Healthcare Inc. v. McKesson Corporation, et al.*, 12-CV-06440 (NG). The United States and the named states have declined to intervene in the case. On October 15, 2018, the Company filed a motion to dismiss the complaint as to all named defendants. On February 4, 2019, the court granted the motion to dismiss in part and denied it in part, leaving the Company and Oncology Therapeutics Network Corporation as the only remaining defendants in the case. On December 9, 2019, the United States District Court for the Eastern District of New York ordered the unsealing of another complaint filed by the same relator, alleging the same misconduct and seeking the same relief with respect to US Oncology, Inc., purportedly on behalf of the same government entities, *United States ex rel. Omni Healthcare, Inc. v. US Oncology, Inc.*, 19-cv-05125. The United States and the named states declined to intervene in the case.

The Company is a defendant in an amended complaint filed on June 15, 2018 in a case pending in the United States District Court for the Southern District of Illinois alleging that the Company's subsidiary, McKesson Medical-Surgical Inc., among others, violated the Sherman Act by restraining trade in the sale of safety and conventional syringes and safety IV catheters. *Marion Diagnostic Center, LLC v. Becton, Dickinson, et al.*, No. 18:1059. The action is filed on behalf of a purported class of purchasers, and seeks treble damages and further relief, all in unspecified amounts. On July 20, 2018, the defendants filed a motion to dismiss. On November 30, 2018, the district court granted the motion to dismiss, and dismissed the complaint with prejudice. On December 27, 2018, plaintiffs appealed the order to the United States Court of Appeals for the Seventh Circuit. On March 5, 2020, the United States Court of Appeals for the Seventh Circuit vacated the district court's order, and ruled that dismissal was appropriate on alternative grounds. The case was remanded to the district court to allow the plaintiffs an opportunity to amend their complaint. Plaintiffs filed an amended complaint on August 21, 2020. Defendants filed a motion to dismiss the amended complaint, which the district court granted on March 15, 2021. Plaintiffs appealed the order to the United States Court of Appeals for the Seventh Circuit on March 23, 2021.

On December 30, 2019, a group of independent pharmacies and a hospital filed a class action complaint alleging that the Company and other distributors violated the Sherman Act by colluding with manufacturers to restrain trade in the sale of generic drugs. *Reliable Pharmacy, et al. v. Actavis Holdco US, et al.*, No. 2:19-cv-6044; MDL No. 16-MD-2724. The complaint seeks relief including treble damages, disgorgement, attorney fees, and costs in unspecified amounts.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

On December 12, 2018, the Company received a class action complaint in the United States District Court for the Northern District of California, alleging that McKesson and two of its former officers, CEO John Hammergren and CFO James Beer, violated the Securities Exchange Act of 1934 by reporting profits and revenues from 2013 until early 2017 that were false and misleading, due to an alleged undisclosed conspiracy to fix the prices of generic drugs. *Evanston Police Pension Fund v. McKesson Corporation*, No. 3:18-06525. The complaint seeks relief including damages, attorney fees, and costs in unspecified amounts. On February 8, 2019, the court appointed the Pension Trust Fund for Operating Engineers as the lead plaintiff. On April 10, 2019, the lead plaintiff filed an amended complaint that added insider trading allegations against defendant Hammergren. On April 8, 2021, the court granted plaintiff's motion for class certification.

In July 2015, The Great Atlantic & Pacific Tea Company ("A&P"), a former customer of the Company, filed for reorganization in bankruptcy under Chapter 11 of the United States Bankruptcy Code in the Bankruptcy Court for the Southern District of New York. *In re The Great Atlantic & Pacific Tea Company, Inc., et al.*, Case No. 15-23007. A suit filed in 2017 against the Company in this bankruptcy case seeks to recover alleged preferential transfers. *The Official Committee of Unsecured Creditors on behalf of the bankruptcy estate of The Great Atlantic & Pacific Tea Company, Inc., et al. v. McKesson Corporation d/b/a McKesson Drug Co.*, Adv. Proc. No. 17-08264.

In October 2019, the Company's subsidiary NDCHealth Corporation dba RelayHealth ("RelayHealth") was served with three purported class action complaints filed in the United States District Court for the Northern District of Illinois. The complaints allege that RelayHealth violated the Sherman Act by entering into an agreement with co-defendant Surescripts, LLC not to compete in the electronic prescription routing market, and by conspiring with Surescripts, LLC to monopolize that market, *Powell Prescription Center, et al. v. Surescripts, LLC, et al.*, No. 1:19-cv-06627; *Integrated Pharmaceutical Solutions LLC v. Surescripts, LLC, et al.*, No. 1:19-cv-06778; *Falconer Pharmacy, Inc. v. Surescripts LLC, et al.*, No. 1:19-cv-07035. In November 2019, three similar complaints were filed in the United States District Court for the Northern District of Illinois. *Kennebunk Village Pharmacy, Inc. v. SureScripts, LLC, et al.*, 1:19-cv-7445; *Whitman v. SureScripts, LLC et al.*, No. 1:19-cv-7448; *BBK Global Corp. v. SureScripts, LLC et al.*, 1:19-cv-7640. In December 2019, the six actions were consolidated in the Northern District of Illinois. The complaints seek relief including treble damages, attorney fees, and costs. Subject to final court approval, plaintiffs and RelayHealth reached an agreement in June 2020 to resolve the class action lawsuits and RelayHealth paid into escrow an amount not material in the context of the Company's overall financial results. The settlement does not include any admission of liability, and RelayHealth expressly denies wrongdoing.

In July 2020, the Company was served with a first amended *qui tam* complaint filed in the United States District Court for the Southern District of New York by a relator on behalf of the U.S., 27 states and the District of Columbia against McKesson Corporation, McKesson Specialty Distribution LLC, and McKesson Specialty Care Distribution Corporation, alleging that defendants violated the Anti-Kickback Statute, federal False Claims Act, and various state false claims statutes by providing certain business analytical tools to oncology practice customers, *United States ex rel. Hart v. McKesson Corporation, et al.*, 15-cv-00903-RA. The U.S. and the named states have declined to intervene in the case. The complaint seeks relief including damages, treble damages, civil penalties, attorney fees, and costs of suit, all in unspecified amounts.

III. Government Subpoenas and Investigations

From time to time, the Company receives subpoenas or requests for information from various government agencies. The Company generally responds to such subpoenas and requests in a cooperative, thorough and timely manner. These responses sometimes require time and effort and can result in considerable costs being incurred

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

by the Company. Such subpoenas and requests can lead to the assertion of claims or the commencement of civil or criminal legal proceedings against the Company and other members of the health care industry, as well as to settlements of claims against the Company. The Company responds to these requests in the ordinary course of business. The following are examples of the type of subpoenas or requests the Company receives from time to time.

In May 2017 and August 2018, respectively, the Company was served with two separate Civil Investigative Demands by the U.S. Attorney's Office for the Eastern District of New York relating to the certification the Company obtained for two software products under the U.S. Department of Health and Human Services' Electronic Health Record Incentive Program.

In April and June 2019, the United States Attorney's Office for the Eastern District of New York served grand jury subpoenas seeking documents related to the Company's anti-diversion policies and procedures and its distribution of Schedule II controlled substances. The Company believes the subpoenas are part of a broader investigation by that office into pharmaceutical manufacturers' and distributors' compliance with the Controlled Substances Act and related statutes.

On November 12, 2019, the New York Department of Financial Services sent a Notice of Intent to Commence Enforcement Action to McKesson Corporation and PSS World Medical, Inc. for alleged violations of the New York Insurance Law and/or New York Financial Services Law, and seeking civil monetary penalties, in connection with manufacturing and distributing opioids in New York.

In January 2020, the United States Attorney's Office for the District of Massachusetts served a Civil Investigative Demand on the Company seeking documents related to certain discounts and rebates paid to physician practice customers.

On November 21, 2016, the Belgian Competition Authority carried out inspections at the premises of several Belgian wholesalers, including Belmedis SA, which was subsequently acquired by the Company. Pharma Belgium NV is also part of the investigation. On April 23, 2021, McKesson received correspondence from the Belgian Competition Authority seeking civil penalties.

IV. State Opioid Statutes

Legislative, regulatory or industry measures to address the misuse of prescription opioid medications could affect the Company's business in ways that it may not be able to predict. For example, in April 2018, the State of New York adopted the Opioid Stewardship Act (the "OSA") which required the creation of an aggregate \$100 million annual surcharge on all manufacturers and distributors licensed to sell or distribute opioids in New York. The initial surcharge payment would have been due on January 1, 2019 for opioids sold or distributed during calendar year 2017. On July 6, 2018, the Healthcare Distribution Alliance filed a lawsuit challenging the constitutionality of the law and seeking an injunction against its enforcement. On December 19, 2018, the U.S. District Court for the Southern District of New York found the law unconstitutional and issued an injunction preventing the State of New York from enforcing the law. The State appealed that decision. On September 14, 2020, a panel of the U.S. Court of Appeals for the Second Circuit reversed the district court's decision on procedural grounds. The Company has accrued a \$50 million pre-tax charge (\$37 million after-tax) as its estimated share of the OSA surcharge for calendar years 2017 and 2018. This OSA provision was recognized in "Selling, distribution, general, and administrative expenses" in the Consolidated Statement of Operations for the year ended March 31, 2021 and in "Other accrued liabilities" in the Consolidated Balance Sheet as of March 31, 2021. The State of New York adopted an excise tax on sales of opioids in the State, which became effective

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

July 1, 2019. The law adopting the excise tax made clear that the OSA does not apply to sales or distributions occurring after December 31, 2018. The Healthcare Distribution Alliance filed a petition for panel rehearing, or, in the alternative, for rehearing en banc with the U.S. Court of Appeals for the Second Circuit; that petition was denied on December 18, 2020. On February 12, 2021, the Court of Appeals for the Second Circuit granted a motion by the Healthcare Distribution Alliance to stay its mandate pending the filing and disposition of a petition for writ of certiorari before the U.S. Supreme Court. The due date for filing such a petition is May 17, 2021.

V. Environmental Matters

Primarily as a result of the operation of the Company's former chemical businesses, which were fully divested by 1987, the Company is involved in various matters pursuant to environmental laws and regulations. The Company has received claims and demands from governmental agencies relating to investigative and remedial actions purportedly required to address environmental conditions alleged to exist at five sites where it, or entities acquired by it, formerly conducted operations and the Company, by administrative order or otherwise, has agreed to take certain actions at those sites, including soil and groundwater remediation.

Based on a determination by the Company's environmental staff, in consultation with outside environmental specialists and counsel, the current estimate of the Company's probable loss associated with the remediation costs for these five sites is \$10 million, net of amounts anticipated from third parties. The \$10 million is expected to be paid out between April 2021 and March 2051. The Company has accrued for the estimated probable loss for these environmental matters.

The Company has been designated as a Potentially Responsible Party ("PRP") under the Superfund law for environmental assessment and cleanup costs as the result of its alleged disposal of hazardous substances at 14 sites. With respect to these sites, numerous other PRPs have similarly been designated and while the current state of the law potentially imposes joint and several liabilities upon PRPs, as a practical matter, costs of these sites are typically shared with other PRPs. At one of these sites, the United States Environmental Protection Agency has selected a preferred remedy with an estimated cost of approximately \$1.4 billion. It is not certain at this point in time what proportion of this estimated liability will be borne by the Company. Accordingly, the Company's estimated probable loss at those 14 sites is approximately \$28 million, which has been accrued for in the Consolidated Balance Sheets. However, it is possible that the ultimate costs of these matters may exceed or be less than the reserves.

VI. Value Added Tax Assessments

The Company operates in various countries outside the U.S. which collect value added taxes ("VAT"). The determination of the manner in which a VAT applies to the Company's foreign operations is subject to varying interpretations arising from the complex nature of the tax laws. The Company has received assessments for VAT which are in various stages of appeal. The Company disagrees with these assessments and believes that it has a strong legal argument to defend its tax positions. Certain VAT assessments relate to years covered by an indemnification agreement. Due to the complex nature of the tax laws, it is not possible to estimate the outcome of these matters. However, based on currently available information, the Company believes the ultimate outcome of these matters will not have a material adverse effect on its financial position, cash flows or results of operations.

VII. Antitrust Settlements

Numerous lawsuits have been filed against certain brand pharmaceutical manufacturers alleging that the manufacturer, by itself or in concert with others, took improper actions to delay or prevent generic drugs from

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

entering the market. These lawsuits are typically brought as class actions. The Company has not been named a plaintiff in any of these class action lawsuits, but has been a member of the class of those who purchased directly from the pharmaceutical manufacturers. Some of these class action lawsuits have settled in the past with the Company receiving proceeds, including \$181 million, \$22 million, and \$202 million in 2021, 2020, and 2019, respectively, which were included in “Cost of sales” in the Consolidated Statements of Operations.

VIII. Other Matters

The Company is involved in various other litigation, governmental proceedings and claims, not described above, that arise in the normal course of business. While it is not possible to determine the ultimate outcome or the duration of such litigation, governmental proceedings or claims, the Company believes, based on current knowledge and the advice of counsel, that such litigation, proceedings and claims will not have a material impact on the Company’s financial position or results of operations.

20. Stockholders’ Equity

Each share of the Company’s outstanding common stock is permitted one vote on proposals presented to stockholders and is entitled to share equally in any dividends declared by the Company’s Board of Directors (the “Board”).

In July 2020, the quarterly dividend was raised from \$0.41 to \$0.42 per common share for dividends declared on or after such date by the Board. Dividends were \$1.67 per share in 2021, \$1.62 per share in 2020, and \$1.51 per share in 2019. The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon the Company’s future earnings, financial condition, capital requirements, and other factors.

Share Repurchase Plans

Stock repurchases may be made from time-to-time in open market transactions, privately negotiated transactions, through accelerated share repurchase (“ASR”) programs, or by combinations of such methods, any of which may use pre-arranged trading plans that are designed to meet the requirements of Rule 10b5-1(c) of the Securities Exchange Act of 1934. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including the Company’s stock price, corporate and regulatory requirements, restrictions under the Company’s debt obligations, and other market and economic conditions.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Information regarding the share repurchase activity over the last three years is as follows:

	Share Repurchases ⁽¹⁾		
	Total Number of Shares Purchased ⁽²⁾	Average Price Paid Per Share	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
<i>(In millions, except price per share data)</i>			
Balance, March 31, 2018			\$ 1,096
Shares repurchase plans authorized in May 2018			4,000
Shares repurchased — Open market	10.4	\$132.14	(1,377)
Shares repurchased — ASR	2.1	\$117.98	(250)
Balance, March 31, 2019			3,469
Shares repurchased — Open market	9.2	\$144.68	(1,334)
Shares repurchased — ASR	4.7	\$127.68	(600)
Balance, March 31, 2020			1,535
Shares repurchase plans authorized in January 2021			2,000
Shares repurchased — Open market ⁽³⁾	4.7	\$160.33	(750)
Balance, March 31, 2021			\$ 2,785

- (1) This table does not include the value of equity awards surrendered to satisfy tax withholding obligations. It also excludes shares related to the Company's Split-off of the Change Healthcare JV as described below.
- (2) The number of shares purchased reflects rounding adjustments.
- (3) \$8 million was accrued within "Other accrued liabilities" on the Company's Consolidated Balance Sheet as of March 31, 2021 for share repurchases that were executed in late March and settled in early April.

During the last three years, the Company's share repurchases were transacted through both open market transactions and ASR programs with third party financial institutions.

In 2019, the Company retired 5.0 million or \$542 million of its treasury shares previously repurchased. Under the applicable state law, these shares resume the status of authorized and unissued shares upon retirement. In accordance with the Company's accounting policy, any excess of share repurchase price over par value is allocated between additional paid-in capital and retained earnings. Accordingly, its retained earnings and additional paid-in capital were reduced by \$472 million and \$70 million, respectively, during 2019.

On March 9, 2020, the Company completed the Split-off of its interest in the Change Healthcare JV. In connection with the Split-off, the Company distributed all 176.0 million outstanding shares of SpinCo common stock, which held all of the Company's interests in the Change Healthcare JV, to participating holders of the Company's common stock in exchange for 15.4 million shares of McKesson stock, which are now held as treasury stock on the Company's Consolidated Balance Sheets. Following consummation of the exchange offer, on March 10, 2020, SpinCo merged with and into Change with each share of SpinCo common stock converted into one share of Change common stock, par value \$0.001 per share, with cash being paid in lieu of fractional shares of Change common stock. See Note 2, "Investment in Change Healthcare Joint Venture," for more information.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Other Comprehensive Income (Loss)

Information regarding other comprehensive income (loss) including noncontrolling interests and redeemable noncontrolling interests, net of tax, by component is as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2021	2020	2019
Foreign currency translation adjustments: ⁽¹⁾			
Foreign currency translation adjustments arising during period, net of income tax expense of nil, nil, and nil ⁽²⁾	\$ 312	\$(151)	\$(431)
Reclassified to income statement, net of income tax expense of nil, nil, and nil ⁽³⁾	47	—	—
	359	(151)	(431)
Unrealized gains (losses) on net investment hedges: ⁽⁴⁾			
Unrealized gains (losses) on net investment hedges arising during period, net of income tax (expense) benefit of \$62, \$(30), and \$(71)	(175)	85	241
Reclassified to income statement, net of income tax expense of nil, nil, and nil	—	—	—
	(175)	85	241
Unrealized gains (losses) on cash flow hedges:			
Unrealized gains (losses) on cash flow hedges arising during period, net of income tax (expense) benefit of \$6, \$(12), and \$(4)	(36)	86	24
Reclassified to income statement, net of income tax expense of nil, nil, and nil	—	—	—
	(36)	86	24
Changes in retirement-related benefit plans:			
Net actuarial gain (loss) and prior service credit (cost) arising during the period, net of income tax (expense) benefit of \$2, \$(8), and \$5 ⁽⁵⁾	9	27	(51)
Amortization of actuarial loss, prior service cost and transition obligation, net of income tax benefit of \$1, \$1, and nil ⁽⁶⁾	—	2	9
Foreign currency translation adjustments and other, net of income tax expense of nil, nil, and nil	(11)	6	10
Reclassified to income statement, net of income tax expense of \$9, \$33, and nil ^{(3) (7)}	24	94	—
	22	129	(32)
Other comprehensive income (loss), net of tax	<u>\$ 170</u>	<u>\$ 149</u>	<u>\$(198)</u>

- (1) Foreign currency translation adjustments primarily result from the conversion of non-U.S. dollar financial statements of the Company's foreign subsidiary McKesson Europe, and its operations in Canada into the Company's reporting currency, U.S. dollars.
- (2) 2021, 2020, and 2019 include net foreign currency translation adjustments of \$(60) million, \$1 million, and \$(61) million, respectively, attributable to noncontrolling and redeemable noncontrolling interests.
- (3) 2021 primarily includes adjustments for amounts related to the contribution of the Company's German pharmaceutical wholesale business to a joint venture, as discussed in more detail in Financial Note 3, "Held for Sale." These amounts were included in the current and prior periods calculation of charges to remeasure

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

the assets and liabilities held for sale to fair value less costs to sell recorded within Operating expenses in the Consolidated Statements of Operations.

- (4) 2021, 2020, and 2019 include foreign currency adjustments of \$(118) million, \$39 million, and \$259 million, respectively, on the net investment hedges from the Euro and British pound sterling-denominated notes. 2021, 2020, and 2019 also include foreign currency adjustments of \$(119) million, \$76 million, and \$53 million, respectively, on the net investment hedges from the cross-currency swaps.
- (5) The 2021 and 2020 net actuarial gains of \$8 million and \$2 million, respectively, and 2019 net actuarial loss of \$5 million were attributable to noncontrolling and redeemable noncontrolling interests.
- (6) Pre-tax amount was reclassified into “Cost of sales” and “Operating expenses” in the Consolidated Statements of Operations. The related tax expense was reclassified into “Income tax benefit (expense)” in the Consolidated Statements of Operations.
- (7) 2020 primarily reflects a reclassification of losses in 2020 upon the termination of the Plan from “Accumulated other comprehensive loss” to “Other income, net” in the Company’s Consolidated Statement of Operations.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Accumulated Other Comprehensive Income (Loss)

Information regarding changes in the Company's accumulated other comprehensive income (loss) by component are as follows:

(In millions)	Foreign Currency Translation Adjustments		Unrealized Gains (Losses) on Cash Flow Hedges, Net of Tax	Unrealized Net Gains (Losses) and Other Components of Benefit Plans, Net of Tax	Total Accumulated Other Comprehensive Loss
	Foreign Currency Translation Adjustments, Net of Tax	Unrealized Gains (Losses) on Net Investment Hedges, Net of Tax			
Balance at March 31, 2019	\$(1,628)	\$ 53	\$(37)	\$(237)	\$(1,849)
Other comprehensive income (loss) before reclassifications	(151)	85	86	33	53
Amounts reclassified to earnings and other	—	—	—	96	96
Other comprehensive income (loss)	(151)	85	86	129	149
Less: amounts attributable to noncontrolling and redeemable noncontrolling interests	1	—	—	2	3
Other comprehensive income (loss) attributable to McKesson	(152)	85	86	127	146
Balance at March 31, 2020	(1,780)	138	49	(110)	(1,703)
Other comprehensive income (loss) before reclassifications	312	(175)	(36)	(2)	99
Amounts reclassified to earnings and other	47	—	—	24	71
Other comprehensive income (loss)	359	(175)	(36)	22	170
Less: amounts attributable to noncontrolling and redeemable noncontrolling interests	(60)	(1)	—	8	(53)
Other comprehensive income (loss) attributable to McKesson	419	(174)	(36)	14	223
Balance at March 31, 2021	<u>\$(1,361)</u>	<u>\$ (36)</u>	<u>\$ 13</u>	<u>\$ (96)</u>	<u>\$(1,480)</u>

21. Related Party Balances and Transactions

During the fourth quarter of 2018, a public benefit California foundation ("Foundation") was established to provide opioid education to patients, caregivers, and providers, address policy issues, and increase patient access

McKESSEN CORPORATION
FINANCIAL NOTES (Continued)

to life-saving treatments. Certain officers of the Company also serve as directors and officers of the Foundation. During 2019, the Company paid cash of \$100 million to the Foundation to settle an outstanding pledge it made in 2018. During the fourth quarter of 2020, the Company also contributed \$20 million to the McKesson Foundation, which supports the Company's employees and their community involvement efforts, with a special focus on cancer. A portion of this contribution was directed to an emergency employee assistance fund administered by the Emergency Assistance Foundation, an independent nonprofit organization, to provide support for employees impacted by the COVID-19 pandemic.

McKesson Europe has investments in pharmacies located across Europe that are accounted for under the equity method. McKesson Europe maintains distribution arrangements with these pharmacies for the sale of related goods and services under which revenues of \$178 million, \$141 million, and \$137 million, are included in the Consolidated Statements of Operations for the years ended March 31, 2021, 2020, and 2019, respectively, and receivables related to these transactions included in the Consolidated Balance Sheets were not material as of March 31, 2021 and 2020.

In 2021, 2020, and 2019, the Company's pharmaceutical sales to one of its equity method investees in the U.S. Pharmaceutical segment totaled \$111 million, \$60 million, and \$34 million, respectively. Trade receivables related to these transactions from this investee were not material as of March 31, 2021 and 2020.

Refer to Financial Note 2, "Investment in Change Healthcare Joint Venture," for information regarding related party balances and transactions with Change and the Change Healthcare JV.

22. Segments of Business

Commencing with the second quarter of 2021, the Company implemented a new segment reporting structure which resulted in four reportable segments: U.S. Pharmaceutical, International, Medical-Surgical Solutions, and RxTS. Other, for retrospective periods presented, consists of the Company's equity method investment in the Change Healthcare JV, which was split-off from McKesson in the fourth quarter of 2020. All prior segment information has been recast to reflect the Company's new segment structure and current period presentation. The organizational structure also includes Corporate, which consists of income and expenses associated with administrative functions and projects, and the results of certain investments. The factors for determining the reportable segments included the manner in which management evaluates the performance of the Company combined with the nature of the individual business activities. The Company evaluates the performance of its operating segments on a number of measures, including revenues and operating profit before interest expense and income taxes. Assets by operating segment are not reviewed by management for the purpose of assessing performance or allocating resources.

The U.S. Pharmaceutical segment distributes branded, generic, specialty, biosimilar, and over-the-counter pharmaceutical drugs and other healthcare-related products. This segment also provides practice management, technology, clinical support, and business solutions to community-based oncology and other specialty practices. In addition, the segment sells financial, operational, and clinical solutions to pharmacies (retail, hospital, alternate site) and provides consulting, outsourcing, technological, and other services.

The International segment includes the Company's operations in Europe and Canada, bringing together non-U.S.-based drug distribution services, specialty pharmacy, retail, and infusion care services. The Company's operations in Europe provide distribution and services to wholesale, institutional, and retail customers in 13 European countries where it owns, partners, or franchises with retail pharmacies and operates through two businesses: Pharmaceutical Distribution and Retail Pharmacy. The Company's Canada operations deliver vital

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

medicines, supplies, and information technology solutions throughout Canada and includes Rexall retail pharmacies. McKesson Europe was previously reflected as the European Pharmaceutical Solutions reportable segment and McKesson Canada was previously included in Other.

The Medical-Surgical Solutions segment provides medical-surgical supply distribution, logistics, and other services to healthcare providers, including physician offices, surgery centers, nursing homes, hospital reference labs, and home health care agencies. This segment offers more than 275,000 national brand medical-surgical products as well as McKesson's own line of high-quality products through a network of distribution centers within the United States.

The RxTS segment brings together existing businesses, including CoverMyMeds, RelayHealth, RxCrossroads, and McKesson Prescription Automation, including Multi-Client Central Fill as a Service, to serve the Company's biopharma and life sciences partners and patients. RxTS works across the healthcare delivery system to connect pharmacies, providers, payers, and biopharma for next-generation patient access and adherence solutions. RxCrossroads was previously included in the former U.S. Pharmaceutical and Specialty Solutions reportable segment and CoverMyMeds, RelayHealth, and McKesson Prescription Automation were previously included in Other.

Other, for retrospective periods presented consists of the Company's investment in the Change Healthcare JV, which was split-off from the Company in the fourth quarter of 2020.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Financial information relating to the Company's reportable operating segments and reconciliations to the consolidated totals is as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2021	2020	2019
Segment revenues ⁽¹⁾			
U.S. Pharmaceutical	\$189,274	\$181,700	\$166,189
International	35,965	38,341	38,023
Medical-Surgical Solutions	10,099	8,305	7,618
Prescription Technology Solutions	2,890	2,705	2,489
Total revenues	<u>\$238,228</u>	<u>\$231,051</u>	<u>\$214,319</u>
Segment operating profit (loss) ⁽²⁾			
U.S. Pharmaceutical ⁽³⁾	\$ 2,763	\$ 2,745	\$ 2,710
International ⁽⁴⁾	(37)	(161)	(1,903)
Medical-Surgical Solutions ⁽⁵⁾	707	499	455
Prescription Technology Solutions ⁽⁶⁾	395	396	355
Other ⁽⁷⁾	—	(1,113)	(104)
Subtotal	3,828	2,366	1,513
Corporate expenses, net ⁽⁸⁾	(8,645)	(973)	(639)
Interest expense	(217)	(249)	(264)
Income (loss) from continuing operations before income taxes	<u>\$ (5,034)</u>	<u>\$ 1,144</u>	<u>\$ 610</u>
Segment depreciation and amortization ⁽⁹⁾			
U.S. Pharmaceutical	\$ 211	\$ 208	\$ 227
International	334	357	392
Medical-Surgical Solutions	130	136	118
Prescription Technology Solutions	87	85	90
Corporate	125	136	122
Total depreciation and amortization	<u>\$ 887</u>	<u>\$ 922</u>	<u>\$ 949</u>
Segment expenditures for long-lived assets ⁽¹⁰⁾			
U.S. Pharmaceutical	\$ 246	\$ 109	\$ 103
International	212	218	199
Medical-Surgical Solutions	57	36	116
Prescription Technology Solutions	22	23	14
Corporate	104	120	125
Total expenditures for long-lived assets	<u>\$ 641</u>	<u>\$ 506</u>	<u>\$ 557</u>

- (1) Revenues from services on a disaggregated basis represent less than 1% of the U.S. Pharmaceutical segment's total revenues, less than 7% of the International segment's total revenues, less than 2% of the

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

Medical-Surgical Solutions segment's total revenues, and approximately 39% of the RxTS segment's total revenues. The International segment reflects foreign revenues. Revenues for the remaining three reportable segments are domestic.

- (2) Segment operating profit (loss) includes gross profit, net of operating expenses, as well as other income (expense), net, for the Company's reportable segments. For retrospective periods presented, Operating loss for Other reflects equity earnings and charges from the Company's equity method investment in the Change Healthcare JV, which was split-off from McKesson in the fourth quarter of 2020.
- (3) The Company's U.S. Pharmaceutical segment's operating profit for 2021, 2020, and 2019 includes credits of \$38 million, \$252 million, and \$210 million, respectively, related to the LIFO method of accounting for inventories. Operating profit for 2021, 2020, and 2019 also includes \$181 million, \$22 million, and \$202 million, respectively, of cash receipts for the Company's share of antitrust legal settlements. In addition, operating profit for 2021 includes a charge of \$50 million recorded in connection with the Company's estimated liability under the State of New York's OSA, as further discussed in Note 19, "Commitments and Contingent Liabilities," and operating profit for 2019 includes a charge of \$61 million related to a customer bankruptcy.
- (4) The Company's International segment's operating loss for 2021 and 2020 includes charges of \$58 million and \$275 million (both pre-tax and after-tax), respectively, to remeasure to fair value the assets and liabilities of the Company's German pharmaceutical wholesale business which was contributed to a joint venture, as further discussed in Financial Note 3, "Held for Sale." Operating loss for 2021, 2020, and 2019 includes long-lived asset impairment charges of \$115 million, \$112 million, and \$245 million, respectively, primarily related to retail pharmacy businesses in Canada and Europe, as discussed in more detail in Financial Note 4, "Restructuring, Impairment, and Related Charges." Operating loss for 2021 and 2019 includes goodwill impairment charges of \$69 million and \$1.8 billion (both pre-tax and after-tax), respectively, as discussed in more detail in Financial Note 12, "Goodwill and Intangible Assets, Net." In addition, operating loss for 2019 includes a gain from an escrow settlement of \$97 million (pre-tax and after-tax) representing certain indemnity and other claims related to the Company's 2017 acquisition of Rexall Health.
- (5) The Company's Medical-Surgical Solutions segment's operating profit for 2021 includes charges totaling \$136 million on certain personal protective equipment and other related products due to inventory impairments and excess inventory.
- (6) The Company's RxTS segment's operating profit for 2019 includes a gain of \$56 million recognized from the sale of an equity investment.
- (7) Operating loss for Other for 2020 includes an impairment charge of \$1.2 billion and a dilution loss of \$246 million associated with the Company's investment in the Change Healthcare JV, partially offset by a net gain of \$414 million (pre-tax and after-tax) related to the separation of its interest in the Change Healthcare JV completed during the fourth quarter of 2020. Operating loss for 2019 includes a credit of \$90 million for the derecognition of the TRA liability payable to the shareholders of Change. Operating loss for 2020 and 2019 also includes the Company's proportionate share of loss from the Change Healthcare JV of \$119 million and \$194 million, respectively.
- (8) Corporate expenses, net, for 2021 includes a charge of \$8.1 billion related to the estimated liability for opioid-related claims, as discussed in more detail in Financial Note 19, "Commitments and Contingent Liabilities." Corporate expenses, net, for 2021 also includes net gains of \$133 million associated with certain of the Company's equity investments and a net gain of \$131 million recorded in connection with insurance proceeds received from the settlement of the shareholder derivative action related to the Company's controlled substances monitoring program. Corporate expenses, net, for 2020 includes settlement charges of \$122 million for the termination of the Company's defined benefit pension plan and a settlement charge of \$82 million related to opioid claims.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

- (9) Amounts primarily consist of amortization of acquired intangible assets purchased in connection with business acquisitions and capitalized software for internal use as well as depreciation and amortization of property, plant, and equipment, net.
- (10) Long-lived assets consist of property, plant, and equipment, net and capitalized software.

Segment assets and long-lived assets by geographic areas were as follows:

<i>(In millions)</i>	March 31,	
	2021	2020
Segment assets		
U.S. Pharmaceutical	\$35,236	\$33,541
International	14,987	14,994
Medical-Surgical Solutions	5,986	5,395
Prescription Technology Solutions	3,446	3,786
Corporate	5,360	3,531
Total assets	<u>\$65,015</u>	<u>\$61,247</u>
Long-lived assets ⁽¹⁾		
United States	\$ 2,110	\$ 1,873
Foreign	984	892
Total long-lived assets	<u>\$ 3,094</u>	<u>\$ 2,765</u>

- (1) Long-lived assets consist of property, plant, and equipment, net and capitalized software.

McKESSON CORPORATION
FINANCIAL NOTES (Continued)

23. Quarterly Financial Information (Unaudited)

The quarterly results of operations are not necessarily indicative of the results that may be expected for the entire year. Selected quarterly financial information for the last two years is as follows:

<i>(In millions, except per share amounts)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2021				
Revenues	\$55,679	\$60,808	\$62,599	\$59,142
Gross profit	2,700	3,000	3,151	3,297
Income (loss) after income taxes:				
Continuing operations	\$ 495	\$ 627	\$ (6,174)	\$ 713
Discontinued operations	(1)	—	—	—
Net income (loss)	\$ 494	\$ 627	\$ (6,174)	\$ 713
Net income (loss) attributable to McKesson Corporation	\$ 444	\$ 577	\$ (6,226)	\$ 666
Earnings (loss) per common share attributable to McKesson Corporation ⁽¹⁾				
Diluted ⁽²⁾				
Continuing operations	\$ 2.72	\$ 3.54	\$ (39.03)	\$ 4.15
Discontinued operations	—	—	—	—
Total	\$ 2.72	\$ 3.54	\$ (39.03)	\$ 4.15
Basic				
Continuing operations	\$ 2.74	\$ 3.56	\$ (39.03)	\$ 4.19
Discontinued operations	—	—	—	—
Total	\$ 2.74	\$ 3.56	\$ (39.03)	\$ 4.19

McKESSON CORPORATION
FINANCIAL NOTES (Concluded)

<i>(In millions, except per share amounts)</i>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
Fiscal 2020				
Revenues	\$55,728	\$57,616	\$59,172	\$58,535
Gross profit	2,787	2,867	3,033	3,336
Income (loss) after income taxes:				
Continuing operations	\$ 483	\$ (676)	\$ 247	\$ 1,072
Discontinued operations	(6)	(1)	(5)	6
Net income (loss)	<u>\$ 477</u>	<u>\$ (677)</u>	<u>\$ 242</u>	<u>\$ 1,078</u>
Net income (loss) attributable to McKesson Corporation	<u>\$ 423</u>	<u>\$ (730)</u>	<u>\$ 186</u>	<u>\$ 1,021</u>
Earnings (loss) per common share attributable to McKesson Corporation ⁽¹⁾				
Diluted ⁽²⁾				
Continuing operations	\$ 2.27	\$ (3.99)	\$ 1.06	\$ 5.82
Discontinued operations	(0.03)	—	(0.03)	0.03
Total	<u>\$ 2.24</u>	<u>\$ (3.99)</u>	<u>\$ 1.03</u>	<u>\$ 5.85</u>
Basic				
Continuing operations	\$ 2.28	\$ (3.99)	\$ 1.06	\$ 5.86
Discontinued operations	(0.03)	—	(0.02)	0.03
Total	<u>\$ 2.25</u>	<u>\$ (3.99)</u>	<u>\$ 1.04</u>	<u>\$ 5.89</u>

(1) Certain computations may reflect rounding adjustments.

(2) As a result of the Company's reported net loss for the third quarter of 2021 and the second quarter of 2020, potentially dilutive securities were excluded from the per share computations for those quarters due to their antidilutive effect.

McKESSON CORPORATION

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

Our Chief Executive Officer and our Chief Financial Officer, with the participation of other members of the Company's management, have evaluated the effectiveness of the Company's "disclosure controls and procedures" (as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report and have concluded that our disclosure controls and procedures are effective based on their evaluation of these controls and procedures as required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

Internal Control over Financial Reporting

Management's report on the Company's internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) and the related report of our independent registered public accounting firm are included in this Annual Report on Form 10-K, under the headings, "Management's Annual Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm" and are incorporated herein by reference.

Changes in Internal Controls

There was no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our fourth quarter of 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

McKESSON CORPORATION

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information about our Directors is incorporated by reference from the discussion under Item 1 of our Proxy Statement for the 2021 Annual Meeting of Stockholders (the “Proxy Statement”) under the heading “Election of Directors.” Information about our Executive Officers is incorporated by reference from the discussion in Part I of this report under the heading “Information about our Executive Officers.” Information about our Audit Committee, including the members of the committee and our Audit Committee Financial Expert, is incorporated by reference from the discussion under Item 1 of our Proxy Statement under the headings “The Board, Committees and Meetings,” and “Audit Committee Report.”

Information about the Code of Conduct applicable to all employees, officers and directors can be found on our website, www.mckesson.com, under the caption “Investors — Corporate Governance.” The Company’s Corporate Governance Guidelines and Charters for the Audit, Compensation and Governance Committees can also be found on our website under the same caption.

The Company intends to post on its website required information regarding any amendment to, or waiver from, the Code of Conduct that applies to our Chief Executive Officer, Chief Financial Officer, Controller and persons performing similar functions within four business days after any such amendment or waiver.

Item 11. Executive Compensation.

Information with respect to this item is incorporated by reference from the discussion under the heading “Executive Compensation” in our Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information about security ownership of certain beneficial owners and management is incorporated by reference from the discussion under the heading “Principal Shareholders” in our Proxy Statement.

The following table sets forth information as of March 31, 2021 with respect to the plans under which the Company’s common stock is authorized for issuance:

<i>Plan Category (In millions, except per share amounts)</i>	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights ⁽¹⁾	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	4.2 ⁽²⁾	\$183.29	21.9 ⁽³⁾
Equity compensation plans not approved by security holders	—	\$ —	—

(1) The weighted-average exercise price set forth in this column is calculated excluding outstanding restricted stock unit (“RSU”) awards, since recipients are not required to pay an exercise price to receive the shares subject to these awards.

(2) Represents option and RSU awards outstanding under the following plans: (i) 1997 Non-Employee Directors’ Equity Compensation and Deferral Plan; (ii) the 2005 Stock Plan; and (iii) the 2013 Stock Plan.

McKESSON CORPORATION

- (3) Represents 2.23 million shares available for purchase under the 2000 Employee Stock Purchase Plan and 19.67 million shares available for grant under the 2013 Stock Plan.

The following are descriptions of equity plans that have been approved by the Company's stockholders. The plans are administered by the Compensation Committee of the Board of Directors, except for the portion of the 2013 Stock Plan and 2005 Stock Plan related to non-employee directors, which is administered by the Board of Directors or its Governance Committee.

2013 Stock Plan: The 2013 Stock Plan was adopted by the Board of Directors on May 22, 2013 and approved by the Company's stockholders on July 31, 2013. The 2013 Stock Plan permits the grant of awards in the form of stock options, stock appreciation rights, restricted stock ("RS"), restricted stock units ("RSUs"), performance-based restricted stock units ("PeRSUs"), performance shares, and other share-based awards. The number of shares reserved for issuance under the 2013 Stock Plan equals the sum of (i) 30.0 million shares, (ii) the number of shares reserved but unissued under the 2005 Stock Plan as of the effective date of the 2013 Stock Plan, and (iii) the number of shares that become available for reuse under the 2005 Stock Plan following the effective date of the 2013 Stock Plan. For any one share of common stock issued in connection with an RS, RSU, performance share or other full share award, three and one-half shares shall be deducted from the shares available for future grants. Shares of common stock not issued or delivered as a result of the net exercise of a stock option, including in respect of the payment of applicable taxes, or shares repurchased on the open market with proceeds from the exercise of options shall not be returned to the reserve of shares available for issuance under the 2013 Stock Plan. Shares withheld to satisfy tax obligations relating to the vesting of a full-share award shall be returned to the reserve of shares available for issuance under the 2013 Stock Plan.

Stock options are granted at no less than fair market value and those options granted under the 2013 Stock Plan generally have a contractual term of seven years. Options generally become exercisable in four equal annual installments beginning one year after the grant date. The vesting of RS or RSUs is determined by the Compensation Committee at the time of grant. Beginning with awards granted in fiscal year 2021, RS and RSUs generally vest over three years. RSUs granted under the PeRSU program vest three years following the end of the performance period. The Company's executive officers and other members of senior management are annually granted performance awards called performance stock units ("PSUs"), which have a three-year performance period and are payable in shares without an additional vesting period.

Non-employee directors may be granted an award on the date of each annual meeting of the stockholders for up to 5,000 RSUs, as determined by the Board. Such non-employee director award is fully vested on the date of the grant.

2005 Stock Plan: The 2005 Stock Plan was adopted by the Board of Directors on May 25, 2005 and approved by the Company's stockholders on July 27, 2005. The 2005 Stock Plan permits the granting of up to 42.5 million shares in the form of stock options, RS, RSUs, PeRSUs, performance shares and other share-based awards. For any one share of common stock issued in connection with an RS, RSU, performance share or other full-share award, two shares shall be deducted from the shares available for future grants. Shares of common stock not issued or delivered as a result of the net exercise of a stock option, shares withheld to satisfy tax obligations relating to the vesting of a full-share award or shares repurchased on the open market with proceeds from the exercise of options shall not be returned to the reserve of shares available for issuance under the 2005 Stock Plan. Stock options were granted at no less than fair market value and options granted under the 2005 Stock Plan generally have a contractual term of seven years.

Following the effectiveness of the 2013 Stock Plan, no further shares were made subject to award under the 2005 Stock Plan. Shares reserved but unissued under the 2005 Stock Plan as of the effective date of the 2013 Stock Plan, and shares that become available for reuse under the 2005 Stock Plan following the effectiveness of the 2013 Stock Plan, will be available for awards under the 2013 Stock Plan.

McKESSON CORPORATION

1997 Non-Employee Directors' Equity Compensation and Deferral Plan: The 1997 Non-Employee Directors' Equity Compensation and Deferral Plan was approved by the Company's stockholders on July 30, 1997; however, stockholder approval of the 2005 Stock Plan on July 27, 2005 had the effect of terminating the 1997 Non-Employee Directors' Equity Compensation and Deferral Plan such that no new awards would be granted under the 1997 Non-Employee Directors' Equity Compensation and Deferral Plan.

2000 Employee Stock Purchase Plan (the "ESPP"): The ESPP is intended to qualify as an "employee stock purchase plan" within the meaning of Section 423 of the Internal Revenue Code. In March 2002, the Board amended the ESPP to allow for participation in the plan by employees of certain of the Company's international and other subsidiaries. Currently, 21.1 million shares have been approved by stockholders for issuance under the ESPP.

The ESPP is implemented through a continuous series of three-month purchase periods ("Purchase Periods") during which contributions can be made toward the purchase of common stock under the plan. Each eligible employee may elect to authorize regular payroll deductions during the next succeeding Purchase Period, the amount of which may not exceed 15% of a participant's compensation. At the end of each Purchase Period, the funds withheld by each participant will be used to purchase shares of the Company's common stock. The purchase price of each share of the Company's common stock is 85% of the fair market value of each share on the last day of the applicable Purchase Period. In general, the maximum number of shares of common stock that may be purchased by a participant for each calendar year is determined by dividing \$25,000 by the fair market value of one share of common stock on the offering date.

There currently are no equity awards outstanding that were granted under equity plans that were not submitted for approval by the Company's stockholders.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information with respect to certain transactions with directors and management is incorporated by reference from the Proxy Statement under the heading "Related Party Transactions Policy and Transactions with Related Persons." Information regarding Director independence is incorporated by reference from the Proxy Statement under the heading "Director Independence." Additional information regarding certain related party balances and transactions is included in the Financial Review section of this report and Financial Note 21, "Related Party Balances and Transactions" to the consolidated financial statements appearing in this report.

Item 14. Principal Accounting Fees and Services.

Information regarding principal accountant fees and services is set forth under the heading "Ratification of Appointment of Deloitte & Touche LLP as the Company's Independent Registered Public Accounting Firm for Fiscal 2022" in our Proxy Statement and all such information is incorporated herein by reference.

McKESSON CORPORATION**PART IV****Item 15. Exhibits and Financial Statement Schedule.**

	<u>Page</u>
(a)(1) Consolidated Financial Statements	
Report of Deloitte & Touche LLP, Independent Registered Public Accounting Firm	71
Consolidated Statements of Operations for the years ended March 31, 2021, 2020, and 2019	76
Consolidated Statements of Comprehensive Income (Loss) for the years ended March 31, 2021, 2020, and 2019	77
Consolidated Balance Sheets as of March 31, 2021 and 2020	78
Consolidated Statements of Stockholders' Equity for the years ended March 31, 2021, 2020, and 2019	79
Consolidated Statements of Cash Flows for the years ended March 31, 2021, 2020, and 2019	80
Financial Notes	81
(a)(2) Financial Statement Schedule	
Schedule II-Valuation and Qualifying Accounts	162
All other schedules not included have been omitted because of the absence of conditions under which they are required or because the required information, where material, is shown in the financial statements, financial notes or supplementary financial information.	
(a)(3) Exhibits submitted with this Annual Report on Form 10-K as filed with the SEC and those incorporated by reference to other filings are listed on the Exhibit Index	163

McKESSON CORPORATION

SCHEDULE II

SUPPLEMENTARY CONSOLIDATED FINANCIAL STATEMENT SCHEDULE
VALUATION AND QUALIFYING ACCOUNTS
(In millions)

Description	Balance at Beginning of Year	Additions		Deductions From Allowance Accounts ⁽¹⁾	Balance at End of Year ⁽²⁾	
		Charged to Costs and Expenses	Charged to Other Accounts ⁽³⁾			
Year Ended March 31, 2021						
Allowances for doubtful accounts	\$252	\$ 4	\$ 1	\$ (46)	\$211	
Other allowances	30	11	9	—	50	
	<u>\$282</u>	<u>\$ 15</u>	<u>\$ 10</u>	<u>\$ (46)</u>	<u>\$261</u>	
Year Ended March 31, 2020						
Allowances for doubtful accounts	\$273	\$ 91	\$ (19)	\$ (93)	\$252	
Other allowances	24	—	—	6	30	
	<u>\$297</u>	<u>\$ 91</u>	<u>\$ (19)</u>	<u>\$ (87)</u>	<u>\$282</u>	
Year Ended March 31, 2019						
Allowances for doubtful accounts	\$187	\$132	\$ (1)	\$ (45)	\$273	
Other allowances	39	—	(15)	—	24	
	<u>\$226</u>	<u>\$132</u>	<u>\$ (16)</u>	<u>\$ (45)</u>	<u>\$297</u>	
				2021	2020	2019
(1) Deductions:						
Written-off				\$ (40)	\$ (93)	\$ (45)
Credited to other accounts and other				(6)	6	—
Total				<u>\$ (46)</u>	<u>\$ (87)</u>	<u>\$ (45)</u>
(2) Amounts shown as deductions from current and non-current receivables (current allowances were \$250 million, \$265 million, and \$279 million at March 31, 2021, 2020, and 2019, respectively)				\$261	\$282	\$297

(3) Primarily represents reclassifications to other balance sheet accounts.

McKESSON CORPORATION**EXHIBIT INDEX**

The agreements included as exhibits to this report are included to provide information regarding their terms and not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements may contain representations and warranties by each of the parties to the applicable agreement that were made solely for the benefit of the other parties to the applicable agreement, and;

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
2.1	Agreement of Contribution and Sale, dated as of June 28, 2016, by and among McKesson Corporation, PF2 NewCo LLC, PF2 NewCo Intermediate Holdings, LLC, PF2 NewCo Holdings, LLC, HCIT Holdings, Inc., Change Healthcare, Inc., Change Aggregator L.P. and H&F Echo Holdings, L.P.	8-K	1-13252	2.1	July 5, 2016
2.2	Amendment No. 1 to Agreement Contribution and Sale, dated as of March 1, 2017, by and among by and among Change Healthcare LLC, Change Healthcare Intermediate Holdings, LLC, Change Healthcare Holdings, LLC, HCIT Holdings, Inc., Change Healthcare, Inc., a Delaware corporation, for itself and in its capacity as Echo Representative, certain affiliates of The Blackstone Group, L.P., certain affiliates of Hellman & Friedman LLC, and McKesson Corporation, a Delaware corporation.	8-K	1-13252	2.1	March 7, 2017
2.3	Separation and Distribution Agreement by and between McKesson Corporation, PF2 SpinCo, Inc., Change Healthcare Inc., Change Healthcare LLC, Change Healthcare Intermediate Holdings, LLC and Change Healthcare Holdings, LLC (including form of Tax Matters Agreement)	8-K	1-13252	2.1	February 10, 2020
3.1	Amended and Restated Certificate of Incorporation of the Company, as filed with the Delaware Secretary of State on July 27, 2011.	8-K	1-13252	3.1	August 2, 2011

McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
3.2	Amended and Restated By-Laws of the Company, as amended March 11, 2020	8-K	1-13252	3.1	March 13, 2020
4.1	Indenture, dated as of March 11, 1997, by and between the Company, as issuer, and The First National Bank of Chicago, as trustee.	10-K	1-13252	4.4	June 19, 1997
4.2	Officers' Certificate, dated as of March 11, 1997, and related Form of 2027 Note.	S-4	333-30899	4.2	July 8, 1997
4.3	Indenture, dated as of March 5, 2007, by and between the Company, as issuer, and The Bank of New York Trust Company, N.A., as trustee.	8-K	1-13252	4.1	March 5, 2007
4.4	First Supplemental Indenture, dated as of February 28, 2011, to the Indenture, dated as of March 5, 2007, among the Company, as issuer, the Bank of New York Mellon Trust Company, N.A. (formerly known as The Bank of New York Trust Company, N.A.), and Wells Fargo Bank, National Association, as trustee, and related Form of 2021 Note and Form of 2041 Note.	8-K	1-13252	4.2	February 28, 2011
4.5	Indenture, dated as of December 4, 2012, by and between the Company, as issuer, and Wells Fargo Bank, National Association, as trustee.	8-K	1-13252	4.1	December 4, 2012
4.6	Officers' Certificate, dated as of December 4, 2012, and related Form of 2022 Note.	8-K	1-13252	4.2	December 4, 2012
4.7	Officers' Certificate, dated as of March 8, 2013, and related Form of 2023 Note.	8-K	1-13252	4.2	March 8, 2013
4.8	Officers' Certificate, dated as of March 10, 2014, and related Form of 2024 Note, and Form of 2044 Note.	8-K	1-13252	4.2	March 10, 2014
4.9	Officer's Certificate, dated as of February 17, 2017, and related Form of 2021 Euro Note, Form of 2025 Euro Note, and Form of 2029 Sterling Note.	8-K	1-13252	4.1	February 17, 2017
4.10	Officer's Certificate, dated as of February 12, 2018, and related Form of 2026 Euro Note.	8-K	1-13252	4.1	February 13, 2018
4.11	Officer's Certificate, dated as of February 16, 2018, and related Form of 2028 Note.	8-K	1-13252	4.1	February 21, 2018
4.12	Officer's Certificate, dated as of November 30, 2018, and Form of 2029 Note.	8-K	1-13252	4.1	November 30, 2018
4.13	Officer's Certificate, dated as of December 3, 2020, and related Form of 2025 Note.	8-K	1-13252	4.1	December 3, 2020

McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
4.14†	Description of the Company's Securities.	—	—	—	—
10.1*	McKesson Corporation 1997 Non-Employee Directors' Equity Compensation and Deferral Plan, as amended through January 29, 2003.	10-K	1-13252	10.4	June 10, 2004
10.2*	McKesson Corporation Supplemental Profit Sharing Investment Plan, as amended and restated on January 29, 2003.	10-K	1-13252	10.6	June 6, 2003
10.3*	McKesson Corporation Supplemental Retirement Savings Plan, as amended and restated effective July 30, 2019.	10-Q	1-13252	10.2	October 30, 2019
10.4*	McKesson Corporation Deferred Compensation Administration Plan II, as amended and restated as of October 28, 2004, and Amendment No. 1 thereto effective July 25, 2007.	10-K	1-13252	10.7	May 7, 2008
10.5*	McKesson Corporation Deferred Compensation Administration Plan III, as amended and restated effective July 30, 2019.	10-Q	1-13252	10.1	October 30, 2019
10.6*	McKesson Corporation Executive Survivor Benefits Plan, as amended and restated as of January 20, 2010.	8-K	1-13252	10.1	January 25, 2010
10.7*	McKesson Corporation Severance Policy for Executive Employees, as amended and restated April 23, 2013.	10-K	1-13252	10.11	May 7, 2013
10.8*	McKesson Corporation Change in Control Policy for Selected Executive Employees, as amended and restated effective January 28, 2020.	10-K	1-13252	10.8	May 22, 2020
10.9*	McKesson Corporation Management Incentive Plan, effective July 29, 2015.	8-K	1-13252	10.1	July 31, 2015
10.10*	Form of Statement of Terms and Conditions Applicable to Awards Pursuant to the McKesson Corporation Management Incentive Plan, effective May 26, 2015.	10-Q	1-13252	10.1	July 29, 2015
10.11*	McKesson Corporation Long-Term Incentive Plan, as amended and restated effective May 26, 2015, as amended effective October 23, 2018.	10-Q	1-13252	10.1	October 25, 2018
10.12*	Forms of Statement of Terms and Conditions Applicable to Awards Pursuant to the McKesson Corporation Long-Term Incentive Plan, effective May 24, 2016.	10-K	1-13252	10.14	May 5, 2016

McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
10.13*	McKesson Corporation 2005 Stock Plan, as amended and restated on July 28, 2010.	10-Q	1-13252	10.4	July 30, 2010
10.14*	Forms of (i) Statement of Terms and Conditions, (ii) Stock Option Grant Notice and (iii), Restricted Stock Unit Agreement, each as applicable to Awards under the McKesson Corporation 2005 Stock Plan.	10-Q	1-13252	10.2	July 26, 2012
10.15*	McKesson Corporation 2013 Stock Plan, effective July 31, 2013.	8-K	1-13252	10.1	August 2, 2013
10.16*†	Forms of Statement of Terms and Conditions and Grant Notices Applicable to Awards Pursuant to the McKesson Corporation 2013 Stock Plan.	—	—	—	—
10.17	Third Amended and Restated Limited Liability Company Agreement of Change Healthcare LLC, dated as of March 1, 2017.	8-K	1-13252	10.1	March 7, 2017
10.18	Form of Commercial Paper Dealer Agreement between McKesson Corporation, as Issuer, and the Dealer.	10-K	1-13252	10.19	May 5, 2016
10.19	Credit Agreement, dated as of October 22, 2015, among the Company and Certain Subsidiaries, as Borrowers, Bank of America, N.A. as Administrative Agent, Bank of America, N.A. (acting through its Canada Branch), Citibank, N.A. and Barclays Bank PLC, as Swing Line Lenders, Wells Fargo Bank, National Association as L/C Issuer, Barclays Bank PLC, Citibank N.A., Wells Fargo Bank, National Association as Co-Syndication Agents, Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd. as Co-Documentation Agents, and The Other Lenders Party Thereto, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Bank PLC, Citigroup Global Markets Inc., Goldman Sachs Bank USA, J.P. Morgan Securities, LLC, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Wells Fargo Securities, LLC as Joint Lead Arrangers and Joint Book Runners.	8-K	1-13252	10.1	October 23, 2015

McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
10.20	Amendment No. 2, dated January 30, 2014, and Amendment No. 1, dated November 15, 2013, to the Credit Agreement and the Credit Agreement dated as of September 23, 2011, among the Company and McKesson Canada Corporation, collectively, the Borrowers, Bank of America, N.A. as Administrative Agent, Bank of America, N.A. (acting through its Canada branch), as Canadian Administrative Agent, JPMorgan Chase Bank, N.A. and Wells Fargo Bank, National Association, as Co-Syndication Agents, Wells Fargo Bank, National Association as L/C Issuer, The Bank of Tokyo-Mitsubishi UFJ, LTD., The Bank of Nova Scotia and U.S. Bank National Association as Co-Documentation Agents, and The Other Lenders Party Thereto, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, Sole Lead Arranger and Sole Book Manager.	8-K	1-3252	10.1	February 5, 2014
10.21	Credit Agreement dated as of September 25, 2019, among the Company and certain subsidiaries, as borrowers, Bank of America, N.A., as administrative agent, Barclays Bank PLC, Citibank, N.A., Wells Fargo Bank, National Association, Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A., and HSBC Securities (USA) Inc., as co-syndication agents, the lenders party thereto, the letter of credit issuers party thereto ("2020 Credit Facility").	8-K	1-13252	10.1	September 27, 2019
	Amendment No. 1, dated February 1, 2021, to the 2020 Credit Facility.	8-K	1-13252	10.1	April 2, 2021
	Amendment No. 2, dated March 31, 2021, to the 2020 Credit Facility.	8-K	1-13252	10.2	April 2, 2021
10.22*	Form of Director and Officer Indemnification Agreement.	10-K	1-13252	10.27	May 4, 2010
10.23	Description of Separation Letter between the Company and Banshi Nagji, Executive Vice President and Chief Strategy and Business Development Officer, dated March 17, 2020.	8-K	1-13252	—	March 23, 2020
10.24	Tax Matters Agreement, by and between McKesson Corporation, PF2 SpinCo, Inc., Change Healthcare Inc., Change Healthcare LLC and Change Healthcare Holdings, LLC dated as of March 9, 2020	8-K	1-13252	10.1	March 13, 2020

McKESSON CORPORATION

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
21†	List of Significant Subsidiaries of the Registrant.	—	—	—	—
23†	Consent of Independent Registered Public Accounting Firm, Deloitte & Touche LLP.	—	—	—	—
31.1†	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, and adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	—	—	—	—
31.2†	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934 as amended, and adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	—	—	—	—
32††	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	—	—	—	—
101†	The following materials from the McKesson Corporation Annual Report on Form 10-K for the fiscal year ended March 31, 2021, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) the Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) related Financial Notes.	—	—	—	—
104†	Cover Page Interactive Data File (formatted as iXBRL and contained in Exhibit 101).	—	—	—	—

* Management contract or compensation plan or arrangement in which directors and/or executive officers are eligible to participate.

† Filed herewith.

†† Furnished herewith.

Registrant agrees to furnish to the Commission upon request a copy of each instrument defining the rights of security holders with respect to issues of long-term debt of the registrant, the authorized principal amount of which does not exceed 10% of the total assets of the registrant.

Item 16. Form 10-K Summary

None.

McKESSON CORPORATION

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

McKESSON CORPORATION

Date: May 12, 2021

/s/ Britt J. Vitalone

Britt J. Vitalone

Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated:

/s/ Brian S. Tyler

Brian S. TylerChief Executive Officer and Director
(Principal Executive Officer)

/s/ Marie L. Knowles

Marie L. Knowles, Director

/s/ Britt J. Vitalone

Britt J. VitaloneExecutive Vice President and Chief Financial
Officer (Principal Financial Officer)

/s/ Bradley E. Lerman

Bradley E. Lerman, Director

/s/ Sundeep G. Reddy

Sundeep G. ReddySenior Vice President and Controller
(Principal Accounting Officer)

/s/ Linda Mantia

Linda Mantia, Director

/s/ Dominic J. Caruso

Dominic J. Caruso, Director

/s/ Maria Martinez

Maria Martinez, Director

/s/ N. Anthony Coles

N. Anthony Coles, M.D., Director

/s/ Edward A. Mueller

Edward A. Mueller, Director

/s/ M. Christine Jacobs

M. Christine Jacobs, Director

/s/ Susan R. Salka

Susan R. Salka, Director

/s/ Donald R. Knauss

Donald R. Knauss, Director

/s/ Kenneth E. Washington

Kenneth E. Washington, Director

Date: May 12, 2021

Exhibit 31.1

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Brian S. Tyler, certify that:

1. I have reviewed this annual report on Form 10-K of McKesson Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2021

/s/ Brian S. Tyler

Brian S. Tyler
Chief Executive Officer

Exhibit 31.2

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Britt J. Vitalone, certify that:

1. I have reviewed this annual report on Form 10-K of McKesson Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2021

/s/ Britt J. Vitalone

Britt J. Vitalone

Executive Vice President and Chief Financial Officer

Exhibit 32

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of McKesson Corporation (the “Company”) on Form 10-K for the year ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, in the capacities and on the dates indicated below, each hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of their knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Brian S. Tyler

Brian S. Tyler
Chief Executive Officer
May 12, 2021

/s/ Britt J. Vitalone

Britt J. Vitalone
Executive Vice President and Chief Financial Officer
May 12, 2021

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002, and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to McKesson Corporation and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Forward-Looking Statements

This Annual Report on Form 10-K, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of Part II of this report and the “Risk Factors” in Item 1A of Part I of this report, contains forward-looking statements within the meaning of section 27A of the Securities Act of 1933 (“Securities Act”) and section 21E of the Securities Exchange Act of 1934, as amended. Some of these statements can be identified by use of forward-looking words such as “believes,” “expects,” “anticipates,” “may,” “will,” “should,” “seeks,” “approximately,” “intends,” “plans,” or “estimates,” or the negative of these words, or other comparable terminology. The discussion of financial trends, strategy, plans, or intentions may also include forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected, anticipated, or implied. Although it is not possible to predict or identify all such risks and uncertainties, they include, but are not limited to, the factors discussed in Item 1A of Part I of this report under “Risk Factors” and in our publicly available SEC filings and press releases. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date such statements were first made. Except to the extent required by federal securities laws, we undertake no obligation to publicly release the result of any revisions to any forward-looking statements to reflect events or circumstances after the date the statements are made, or to reflect the occurrence of unanticipated events.

McKesson Corporation
6555 State Highway 161
Irving, TX 75039

www.mckesson.com

.....
© 2021 McKesson Corporation. All rights reserved.

MCKESSON

TRIAL EXHIBIT 118

SCHUBERT JONCKHEER & KOLBE LLP
Three Embarcadero Center, Suite 1650
San Francisco, CA 94111
(415) 788-4220

ROBERT C. SCHUBERT S.B.N. 62684
WILLEM F. JONCKHEER S.B.N. 178748
SCHUBERT JONCKHEER & KOLBE LLP
Three Embarcadero Center, Suite 1650
San Francisco, California 94111
Telephone: (415) 788-4220
Facsimile: (415) 788-0161
rschubert@schubertlawfirm.com
wjonckheer@schubertlawfirm.com

Local Counsel for Plaintiffs

BRIAN J. WANCA (*to be admitted pro hac vice*)
ANDERSON & WANCA
3701 Algonquin Road, Ste 760
Rolling Meadows, IL 60008
Telephone: (847)368-1500
Facsimile: (847)368-1501
bwanca@andersonwanca.com

Counsel for Plaintiffs

**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA**

TRUE HEALTH CHIROPRACTIC, INC.,) **No. 3:13-cv-2219 JST**
an Ohio corporation, and MCLAUGHLIN)
CHIROPRACTIC ASSOCIATES, INC., a)
Tennessee corporation, individually and as)
the representatives of a class of similarly-)
situated persons,,)

Plaintiffs,

CLASS ACTION

v.

MCKESSON CORPORATION,
MCKESSON TECHNOLOGIES, INC., and
JOHN DOES 1-10,

Defendants.



SECOND AMENDED CLASS ACTION COMPLAINT

Plaintiffs True Health Chiropractic, Inc. and McLaughlin Chiropractic, Inc. (“Plaintiffs”) bring this action on behalf of themselves and all others similarly situated, through their attorneys, and except as to those allegations pertaining to Plaintiffs or their attorneys, which allegations are based upon personal knowledge, allege the following upon information and belief against

Defendants McKesson Corporation, McKesson Technologies, Inc. and John Does 1-10 (“Defendants”).

PRELIMINARY STATEMENT

1. This case challenges Defendants’ practice of sending unsolicited facsimiles.

2. The federal Telephone Consumer Protection Act of 1991, as amended by the Junk Fax Prevention Act of 2005, 47 USC § 227 (“JFPA” or the “Act”), and the regulations promulgated under the Act, prohibits a person or entity from faxing or having an agent fax advertisements without the recipient’s prior express invitation or permission. The JFPA provides a private right of action and provides statutory damages of \$500 per violation. Upon information and belief, Defendants have sent facsimile transmissions of unsolicited advertisements to Plaintiffs and the Class in violation of the JFPA, including, but not limited to, the facsimile transmission of unsolicited advertisements on or about April 20, 2010, February 3, 2010, February 22, 2010 and May 11, 2010 (“the Faxes”), true and correct copies of which are attached hereto as Exhibits A and B and made a part hereof. The Faxes describe the commercial availability of Defendants’ goods and services. Plaintiffs are informed and believe, and upon such information and belief aver, that Defendants have sent, and continue to send, unsolicited advertisements via facsimile transmission in violation of the JFPA.

3. Unsolicited faxes damage their recipients. A junk fax recipient loses the use of its fax machine, paper, and ink toner. An unsolicited fax wastes the recipients’ valuable time that would have been spent on something else. A junk fax interrupts the recipient’s privacy. Unsolicited faxes prevent fax machines from receiving authorized faxes, prevent their use for authorized outgoing faxes, cause undue wear and tear on the recipients’ fax machines, and require additional labor to attempt to discern the source and purpose of the unsolicited message.

4. On behalf of themselves and all others similarly situated, Plaintiffs bring this case as a class action asserting claims against Defendants under the JFPA.

5. Plaintiffs are informed and believe, and upon such information and belief aver, that this action is based upon a common nucleus of operative fact because the facsimile transmissions at issue were and are being done in the same or similar manner. This action is based on the same

1 legal theory, namely liability under the JFPA. This action seeks relief expressly authorized by the
2 JFPA: (i) injunctive relief enjoining Defendants, their employees, agents, representatives,
3 contractors, affiliates, and all persons and entities acting in concert with them, from sending
4 unsolicited advertisements in violation of the JFPA; and (ii) an award of statutory damages in the
5 minimum amount of \$500 for each violation of the JFPA, and to have such damages trebled, as
6 provided by § 227(b)(3) of the Act.

7 JURISDICTION AND VENUE

8 6. This Court has subject matter jurisdiction under 28 U.S.C. § 1331 and 47 U.S.C. §
9 227.

10 7. Venue is proper in this District because Defendants committed a statutory tort
11 within this District, and a significant portion of the events took place within this District.

12 PARTIES

13 8. Plaintiff True Health Chiropractic, Inc. (“True Health”) is an Ohio corporation with
14 its principal place of business located in Ohio.

15 9. Plaintiff McLaughlin Chiropractic, Inc. (“McLaughlin”) is a Tennessee corporation
16 with its principal place of business located in Tennessee.

17 10. On information and belief, Defendant McKesson Corporation is a Delaware
18 corporation with its principal place of business in San Francisco, California. McKesson
19 Technologies, Inc. is a Delaware corporation with its principal place of business in Alpharetta,
20 Georgia.

21 11. John Does 1-10 will be identified through discovery, but are not presently known.

22 FACTS

23 12. On or about April 20, 2010, Defendants transmitted by telephone facsimile machine
24 an unsolicited fax to True Health. A copy of the facsimile is attached hereto as Exhibit A.

25 13. On or about February 3, 2010, February 22, 2010, and May 11, 2010, Defendants
26 transmitted by telephone facsimile machine three unsolicited faxes to McLaughlin. Copies of the
27 facsimiles are attached hereto as Exhibit B.

SCHUBERT JONCKHEER & KOLBELLP
Three Embarcadero Center, Suite 1650
San Francisco, CA 94111
(415) 788-4220

14. Defendants created or made Exhibits A and B which Defendants knew or should have known is a good or product which Defendants intended to and did in fact distribute to Plaintiffs and the other members of the class.

15. Exhibits A and B are part of Defendants' work or operations to market Defendants' goods or services which were performed by Defendants and on behalf of Defendants. Therefore, Exhibits A and B constitute material furnished in connection with Defendants' work or operations.

16. Plaintiffs had not invited or given permission to Defendants to send the faxes.

17. On information and belief, Defendants faxed the same and other unsolicited facsimiles to Plaintiffs without the required opt-out language and more than 40 other recipients without first receiving the recipients' express permission or invitation.

18. There is no reasonable means for Plaintiffs (or any other class member) to avoid receiving unauthorized faxes. Fax machines are left on and ready to receive the urgent communications their owners desire to receive.

19. Defendants' facsimiles did not display a proper opt-out notice as required by 47 C.F.R. 64.1200.

20. On or about May 9, 2008, approximately two years prior to Plaintiffs' receipt of Defendant's unsolicited facsimiles, McKesson Corporation was served with a citation from the FCC informing it of violations of the TCPA and demanding it cease and desist the violations. A true and correct copy of the citation is attached hereto as Exhibit C.

CLASS ACTION ALLEGATIONS

21. In accordance with F. R. Civ. P. 23(b)(1), (b)(2) and (b)(3), Plaintiffs bring this class action pursuant to the JFPA, on behalf of the following class of persons:

All persons who (1) on or after four years prior to the filing of this action, (2) were sent telephone facsimile messages of material advertising the commercial availability of any property, goods, or services by or on behalf of Defendants, (3) from whom Defendants did not obtain prior express permission or invitation to send those faxes, and (4) did not display a proper opt-out notice.

1 Excluded from the Class are the Defendants, their employees, agents and members of the
2 Judiciary. Plaintiffs reserve the right to amend the class definition upon completion of class
3 certification discovery.

4 22. Class Size (F. R. Civ. P. 23(a)(1)): Plaintiffs are informed and believe, and upon
5 such information and belief aver, that the number of persons and entities of the Class is numerous
6 and joinder of all members is impracticable. Plaintiffs are informed and believe, and upon such
7 information and belief aver, that the number of class members is at least forty.

8 23. Commonality (F. R. Civ. P. 23 (a) (2)): Common questions of law and fact apply
9 to the claims of all class members. Common material questions of fact and law include, but are not
10 limited to, the following:

- 11 a) Whether the Defendants sent unsolicited fax advertisements;
- 12 b) Whether the Defendants' fax advertised the commercial availability of
13 property, goods, or services;
- 14 c) The manner and method the Defendants used to compile or obtain the list of
15 fax numbers to which they sent Exhibits A and B and other unsolicited faxed
16 advertisements;
- 17 d) Whether the Defendants faxed advertisements without first obtaining the
18 recipient's prior permission or invitation;
- 19 e) Whether the Defendants sent the faxed advertisements knowingly;
- 20 f) Whether the Defendants violated the provisions of 47 U.S.C. § 227 and the
21 regulations promulgated thereunder;
- 22 g) Whether the faxes contain an "opt-out notice" that complies with the
23 requirements of § (b)(1)(C)(iii) of the Act, and the regulations promulgated thereunder, and
24 the effect of the failure to comply with such requirements;
- 25 h) Whether the Defendants should be enjoined from faxing advertisements in
26 the future;
- 27 i) Whether the Plaintiffs and the other members of the class are entitled to
28 statutory damages; and

SCHUBERT JONCKHEER & KOLBE LLP
Three Embarcadero Center, Suite 1650
San Francisco, CA 94111
(415) 788-4220

j) Whether the Court should award treble damages.

24. Typicality (F. R. Civ. P. 23 (a) (3)): Plaintiffs' claims are typical of the claims of all class members. Plaintiffs received the same faxes as the faxes sent by or on behalf of the Defendants advertising goods and services of the Defendants during the Class Period. The Plaintiffs are making the same claims and seeking the same relief for them and all class members based upon the same federal statute. The Defendants have acted the same or in a similar manner with respect to the Plaintiffs and all the class members by sending Plaintiffs and each member of the class the same faxes.

25. Fair and Adequate Representation (F. R. Civ. P. 23 (a) (4)): The Plaintiffs will fairly and adequately represent and protect the interests of the class. It is interested in this matter, has no conflicts and has retained experienced class counsel to represent the class.

26. Need for Consistent Standards and Practical Effect of Adjudication (F. R. Civ. P. 23 (b) (1)): Class certification is appropriate because the prosecution of individual actions by class members would: (a) create the risk of inconsistent adjudications that could establish incompatible standards of conduct for the Defendants, and/or (b) as a practical matter, adjudication of the Plaintiffs' claims will be dispositive of the interests of class members who are not parties.

27. Common Conduct (F. R. Civ. P. 23 (b) (2)): Class certification is also appropriate because the Defendants have acted and refused to act in the same or similar manner with respect to all class members thereby making injunctive and declaratory relief appropriate. The Plaintiffs demands such relief as authorized by 47 U.S.C. §227.

28. Predominance and Superiority (F. R. Civ. P. 23 (b) (3)): Common questions of law and fact predominate over any questions affecting only individual members, and a class action is superior to other methods for the fair and efficient adjudication of the controversy because:

- a) Proof of the claims of the Plaintiffs will also prove the claims of the class without the need for separate or individualized proceedings;
- b) Evidence regarding defenses or any exceptions to liability that the Defendants may assert and prove will come from the Defendants' records and will not require individualized or separate inquiries or proceedings;

SCHUBERT JONCKHEER & KOLBE LLP
Three Embarcadero Center, Suite 1650
San Francisco, CA 94111
(415) 788-4220

c) The Defendants have acted and are continuing to act pursuant to common policies or practices in the same or similar manner with respect to all class members;

d) The amount likely to be recovered by individual class members does not support individual litigation. A class action will permit a large number of relatively small claims involving virtually identical facts and legal issues to be resolved efficiently in one (1) proceeding based upon common proofs; and

e) This case is inherently manageable as a class action in that:

(i) The Defendants identified persons or entities to receive the fax transmissions and it is believed that the Defendants' computer and business records will enable the Plaintiffs to readily identify class members and establish liability and damages;

(ii) Liability and damages can be established for the Plaintiffs and the class with the same common proofs;

(iii) Statutory damages are provided for in the statute and are the same for all class members and can be calculated in the same or a similar manner;

(iv) A class action will result in an orderly and expeditious administration of claims and it will foster economics of time, effort and expense;

(v) A class action will contribute to uniformity of decisions concerning the Defendants' practices; and

(vi) As a practical matter, the claims of the class are likely to go unaddressed absent class certification.

COUNT I

Claim for Relief for Violation of the JFPA, 47 U.S.C. § 227 *et seq.*

29. Plaintiffs and the Class reassert and incorporate herein by reference the averments set for in paragraphs 1-28 above.

30. The JFPA makes unlawful for any person to "use any telephone facsimile machine, computer or other device to send, to a telephone facsimile machine, an unsolicited advertisement ..." 47 U.S.C. § 227(b)(1)(C).

31. The JFPA defines "unsolicited advertisement" as "any material advertising the

1 commercial availability or quality of any property, goods, or services which is transmitted to any
2 person without that person's prior express invitation or permission, in writing or otherwise." 47
3 U.S.C. § 227 (a) (5).

4 32. **Opt-Out Notice Requirements.** The JFPA strengthened the prohibitions against
5 the sending of unsolicited advertisements by requiring, in §(b)(1)(C)(iii) of the Act, that senders of
6 faxed advertisements place a clear and conspicuous notice on the first page of the transmission that
7 contains the following among other things (hereinafter collectively the "Opt-Out Notice
8 Requirements"):

- 9 1. a statement that the recipient is legally entitled to opt-out of receiving future
10 faxed advertisements – knowing that he or she has the legal right to request an opt-
11 out gives impetus for recipients to make such a request, if desired;
- 12 2. a statement that the sender must honor a recipient's opt-out request within
13 30 days and the sender's failure to do so is unlawful – thereby encouraging
14 recipients to opt-out, if they did not want future faxes, by advising them that their
15 opt-out requests will have legal "teeth";
- 16 3. a statement advising the recipient that he or she may opt-out with respect to
17 all of his or her facsimile telephone numbers and not just the ones that receive a
18 faxed advertisement from the sender – thereby instructing a recipient on how to
19 make a valid opt-out request for all of his or her fax machines;

20 The requirement of (1) above is incorporated from § (b)(D)(ii) of the Act. The requirement
21 of (2) above is incorporated from § (b)(D)(ii) of the Act and the rules and regulations of the
22 Federal Communications Commission (the "FCC") in ¶31 of its 2006 Report and Order (*In the*
23 *Matter of Rules and Regulations Implementing the Telephone Consumer Protection Act, Junk*
24 *Prevention Act of 2005*, 21 F.C.C.R. 3787, 2006 WL 901720, which rules and regulations took
25 effect on August 1, 2006). The requirements of (3) above are contained in § (b)(2)(E) of the Act
26 and incorporated into the Opt-Out Notice Requirements via § (b)(2)(D)(ii). Compliance with the
27 Opt-Out Notice Requirements is neither difficult nor costly. The Opt-Out Notice Requirements are
28 important consumer protections bestowed by Congress upon the owners of the telephone lines and

1 fax machines giving them the right, and means, to stop unwanted faxed advertisements.

2 33. **2006 FCC Report and Order.** The JFPA, in § (b)(2) of the Act, directed the FCC
3 to implement regulations regarding the JFPA, including the JFPA's Opt-Out Notice Requirements
4 and the FCC did so in its 2006 Report and Order, which in addition provides among other things:

5 A. The definition of, and the requirements for, an established business
6 relationship for purposes of the first of the three prongs of an exemption to liability under §
7 (b)(1)(C)(i) of the Act and provides that the lack of an "established business relationship"
8 precludes the ability to invoke the exemption contained in § (b)(1)(C) of the Act (*See* 2006 Report
9 and Order ¶¶8-12 and 17-20);

10 B. The required means by which a recipient's facsimile telephone number must
11 be obtained for purposes of the second of the three prongs of the exemption under § (b)(1)(C)(ii) of
12 the Act and provides that the failure to comply with these requirements precludes the ability to
13 invoke the exemption contained in § (b)(1)(C) of the Act (*See* 2006 Report and Order ¶¶13-16);

14 C. The things that must be done in order to comply with the Opt-Out Notice
15 Requirements for the purposes of the third of the three prongs of the exemption under §
16 (b)(1)(C)(iii) of the Act and provides that the failure to comply with these requirements precludes
17 the ability to invoke the exemption contained in § (b)(1)(C) of the Act (*See* 2006 Report and Order
18 ¶¶24-34);

19 D. The failure of a sender to comply with the Opt-Out Notice Requirements
20 precludes the sender from claiming that a recipient gave "prior express permission or invitation" to
21 receive the sender's fax (*See* Report and Order ¶48);

22 As a result thereof, a sender of a faxed advertisement who fails to comply with the Opt-Out
23 Notice Requirements has, by definition, transmitted an unsolicited advertisement under the JFPA.
24 This is because such a sender can neither claim that the recipients of the faxed advertisement gave
25 "prior express permission or invitation" to receive the fax nor can the sender claim the exemption
26 from liability contained in § (b)(C)(1) of the Act.

27 34. **The Faxes.** Defendant sent on or about April 20, 2010, February 3, 2010, February
28 22, 2010 and May 11, 2010 advertisements via facsimile transmission from telephone facsimile

SCHUBERT JONCKHEER & KOLBELLP
Three Embarcadero Center, Suite 1650
San Francisco, CA 94111
(415) 788-4220

1 machines, computers, or other devices to the telephone lines and facsimile machines of Plaintiffs
2 and members of the Class. The Faxes constituted advertisements under the Act. Defendants failed
3 to comply with the Opt-Out Requirements in connection with the Faxes, which contained no Opt-
4 Out notice whatsoever. The Faxes were transmitted to persons or entities without their prior
5 express permission or invitation and/or Defendants are precluded from asserting any prior express
6 permission or invitation because of the failure to comply with the Opt-Out Notice Requirements.
7 By virtue thereof, Defendants violated the JFPA and the regulations promulgated thereunder by
8 sending the Faxes via facsimile transmission to Plaintiffs and members of the Class.

9 **35. Defendants' Other Violations.** Plaintiffs are informed and believe, and upon such
10 information and belief aver, that during the period preceding four years of the filing of this action
11 and repeatedly thereafter, Defendants have sent via facsimile transmission from telephone
12 facsimile machines, computers, or other devices to telephone facsimile machines of members of
13 the Class faxes that constitute advertisements under the JFPA that were transmitted to persons or
14 entities without their prior express permission or invitation (and/or that Defendants are precluded
15 from asserting any prior express permission or invitation because of the failure to comply with the
16 Opt-Out Notice Requirements in connection with such transmissions). By virtue thereof,
17 Defendants violated the JFPA and the regulations promulgated thereunder. Plaintiffs are informed
18 and believe, and upon such information and belief aver, that Defendants are continuing to send
19 unsolicited advertisements via facsimile transmission in violation of the JFPA and the regulations
20 promulgated thereunder, and absent intervention by this Court, will do so in the future.

21 **36.** The TCPA/JFPA provides a private right of action to bring this action on behalf of
22 Plaintiffs and the Class to redress Defendants' violations of the Act, and provides for statutory
23 damages. 47 U.S.C. § 227(b)(3). The Act also provides that injunctive relief is appropriate. *Id.*

24 **37.** The JFPA is a strict liability statute, so the Defendants are liable to the Plaintiffs
25 and the other class members even if their actions were only negligent.

26 **38.** The Defendants knew or should have known that (a) the Plaintiffs and the other
27 class members had not given express invitation or permission for the Defendants or anybody else
28 to fax advertisements about the Defendants' goods or services; (b) Defendants transmitted

SCHUBERT JONCKHEER & KOLBE LLP
Three Embarcadero Center, Suite 1650
San Francisco, CA 94111
(415) 788-4220

1 advertisements; (c) the Fax did not contain the required Opt-Out Notice, and (d) Defendants'
2 transmission of advertisements that did not contain the required opt-out notice was unlawful.

3 39. The Defendants' actions caused damages to the Plaintiffs and the other class
4 members. Receiving the Defendants' junk fax caused the recipients to lose paper and toner
5 consumed in the printing of the Defendants' faxes. Moreover, the Defendants' faxes used the
6 Plaintiffs' telephone lines and fax machines. The Defendants' faxes cost the Plaintiffs time, as the
7 Plaintiffs and their employees wasted their time receiving, reviewing and routing the Defendants'
8 unauthorized faxes. That time otherwise would have been spent on the Plaintiffs' business
9 activities. The Defendants' faxes unlawfully interrupted the Plaintiffs' and other class members'
10 privacy interests in being left alone. Finally, the injury and property damage sustained by
11 Plaintiffs and the other class members from the sending of Defendants' advertisements occurred
12 outside of Defendants' premises.

13 WHEREFORE, Plaintiffs, True Health and McLaughlin, individually and on behalf of all
14 others similarly situated, demand judgment in their favor and against Defendants McKesson
15 Corporation, McKesson Technologies, Inc., and John Does 1-10, jointly and severally, as follows:

16 A. That the Court adjudge and decree that the present case may be properly maintained
17 as a class action, appoint the Plaintiffs as the representatives of the class and appoint the Plaintiffs'
18 counsel as counsel for the class;

19 B. That the Court award actual monetary loss from such violations or the sum of five
20 hundred dollars (\$500.00) for each violation, whichever is greater;

21 C. That the Court enjoin the Defendants from additional violations; and

22 D. That the Court award pre-judgment interest, costs and such further relief as the
23 Court may deem just and proper.

24
25
26 TRUE HEALTH CHIROPRACTIC, INC., an Ohio
27 corporation, and MCLAUGHLIN CHIROPRACTIC
28 ASSOCIATES, INC., a Tennessee corporation,
individually and as the representatives of a class of
similarly-situated persons

SCHUBERT JONCKHEER & KOLBE LLP
Three Embarcadero Center, Suite 1650
San Francisco, CA 94111
(415) 788-4220

By: /S/
ROBERT C. SCHUBERT
WILLEM F. JONCKHEER
SCHUBERT JONCKHEER & KOLBE LLP
Three Embarcadero Center, Suite 1650
San Francisco, CA 94111
Telephone: 415-788-4220
Fax: 415-788-0161
rschubert@schubertlawfirm.com
wjonckheer@schubertlawfirm.com

Local Counsel for Plaintiffs

BRIAN J. WANCA (*pro hac pending*)
ANDERSON + WANCA
3701 Algonquin Road, Suite 760
Rolling Meadows, IL 60008
Telephone: 847-368-1500 / Fax: 847-368-1501
bwanca@andersonwanca.com

GEORGE D. JONSON (*admitted pro hac vice*)
MATT STUBBS (*admitted pro hac vice*)
MONTGOMERY, RENNIE & JONSON
36 East Seventh Street
Cincinnati, OH 45202
Telephone: 513-768-5220 / Fax: 513-768-9220
gjonson@mrjlaw.com

Counsel for Plaintiffs

EXHIBIT A

FROM: McKesson 404 704 8673 TO: 16147941625

04/20/10 13:18 Page1 of 1

medisoft
clinical

Receive a \$1,500 cash rebate and \$750 for each additional provider.*

For chiropractic practices, there's never been a better time to adopt an EHR solution, and now with Medisoft® Clinical, it's never been easier with FREE chiropractic templates.

Medisoft's chiropractic templates enable quick and complete documentation, allowing you to bill more accurately, resulting in higher levels of reimbursement. The electronic health record and the customized chiropractic templates interface easily and integrate seamlessly with your practice management system.

Qualify for ARRA stimulus money.

For providers who qualify, Medical Clinical with the chiropractic templates may provide a clearer path to meaningful use of EHR technology and federal incentive payments.

Call your local value added reseller or visit
www.chirotemplates.com for more information.

© 2010 McKesson Corporation and/or one of its subsidiaries. All rights reserved. Medisoft is a registered trademark of McKesson Corporation and/or one of its subsidiaries. All other company or product names mentioned may be trademarks, service marks or registered trademarks of their respective companies.
*Offer valid from April 19, 2010 through March 25, 2011. To qualify, participants must prove ICA or ACA membership. May not be used in conjunction with any other McKesson promotion.

Medisoft® Templates

- Assessment Initial
- Assessment Follow-up
- Fibromyalgia
- Headache
- Headache Follow-up
- Low Back Pain
- Low Back Pain Follow-up
- Neck Pain
- Neck Pain Follow-up
- Sciatica
- Sciatica Follow-up
- Strain/Sprain

McKESSON
Empowering Healthcare



EXHIBIT B-1

FROM: McKesson 404 704 8573 TO: 18685870279

02/03/10 13:32 Page 001 of 001



Solutions for Independent Practices.

medisoft
clinical

Minimize disruption and maximize value. Medisoft® Clinical provides a fully functional EHR for existing Medisoft® customers at a price point geared for smaller physician practices. There's never been a more critical time to adopt an EHR solution, and now, it's never been easier. OFFEHR® is a special, limited-time program to accelerate the implementation of our leading EHR solutions:

**0% interest for 12 months* on
\$1000 cash rebate for the first provider and \$500 for each additional provider**

Act Now!
Contact your McKesson Sales Representative
800 333 4747 option 1

McKESSON
Empowering Healthcare

Contact us today to learn more and get your practice in motion. Visit offehr.com.

*Not to be combined with any other McKesson offer. **28% down, 0% financing 72% paid over 12 months at 0% interest. Copyright © 2010, McKesson Corporation and/or one of its subsidiaries. All rights reserved.

EXHIBIT B-2

FROM: McKesson 404 704 8673 TO: 18656870279

02/22/10 11:47 Page 001 of 001

medisoft®

Act Now!

**Only 10 days remain for
40% discount on Medisoft®
version 16.**

Enhancements in Medisoft version 16 include:

- Greater control and acceleration in managing the revenue cycle including pre-claim edits, electronic secondary claims, and editing of electronic remittance advice prior to transaction posting
- Improved integration with Medisoft Clinical EMR
- Updated user interface
- Integrated reporting security

Contact McKesson Today!
800-333-4747, option 1
kari.holloway@mckesson.com

*Discount available for software licenses purchased from McKesson. Contact your account representative for program information.
Copyright © 2010 McKesson Corporation and/or one of its subsidiaries. All rights reserved. Medisoft is a registered trademark of McKesson Corporation and/or one of its subsidiaries. Other trademarks and/or registered trademarks will also appear where applicable.

EXHIBIT B-3

FROM: McKesson 404 704 8673 TO: 18656870279

05/11/10 08:09 Page 1 of 1

medisoft
clinical



Receive a \$1,500 cash rebate and \$750 for each additional provider.*

For chiropractic practices, there's never been a better time to adopt an EHR solution, and now with Medisoft® Clinical, it's never been easier with **FREE** chiropractic templates.

Medisoft's chiropractic templates enable quick and complete documentation, allowing you to bill more accurately, resulting in higher levels of reimbursement. The electronic health record and the customized chiropractic templates interface easily and integrate seamlessly with your practice management system.

Qualify for ARRA stimulus money.

For providers who qualify, Medisoft Clinical with the chiropractic templates may provide a clearer path to meaningful use of EHR technology and federal incentive payments.

Medisoft® Templates

- Assessment Initial
- Assessment Follow-up
- Fibromyalgia
- Headache
- Headache Follow-up
- Low Back Pain
- Low Back Pain Follow-up
- Neck Pain
- Neck Pain Follow-up
- Scoliosis
- Scoliosis Follow-up
- Sprain/Strain

Call us today at 800.333.4747, **OPTION 1**, or visit www.chirotemplates.com for more information.

© 2010 McKesson Corporation and/or one of its subsidiaries. All rights reserved. Medisoft is a registered trademark of McKesson Corporation and/or one of its subsidiaries. All other company or product names mentioned may be trademarks, service marks or registered trademarks of their respective companies. *Offer valid from April 18, 2010 through March 25, 2011. To qualify, participants must prove CCA or ACA membership. May not be used in conjunction with any other McKesson promotion.

McKESSON
Empowering Healthcare

EXHIBIT C

Federal Communications Commission



**FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554**

May 9, 2008

VIA CERTIFIED MAIL
RETURN RECEIPT REQUESTED

McKesson Corporation
f/k/a Relay Health Corporation
Attn: Giovanni Colella, MD, CEO
1 Post Street, Floor 19
San Francisco, CA 94104

RE: BB-08-TC-2410

Dear Dr. Colella:

This is an official **CITATION**, issued pursuant to section 503(b)(5) of the Communications Act of 1934, as amended (the Act), 47 U.S.C. § 503(b)(5), for violations of the Act and the Federal Communications Commission's rules that govern telephone solicitations and unsolicited advertisements.¹ As explained below, future violations of the Act or Commission's rules in this regard may subject you and your company to monetary forfeitures.

It has come to our attention that your company, acting under your direction, apparently sent one or more unsolicited advertisements to telephone facsimile machines in violation of Section 227(b)(1)(C) of the Communications Act, as described in the attached complaint(s).² Section 227(b)(1)(C) makes it "unlawful for any person within the United States, or any person outside the United States if the recipient is within the United States . . . to use a telephone facsimile machine,

¹ 47 U.S.C. § 227; 47 C.F.R. § 64.1200. A copy of these provisions is enclosed for your convenience. Section 227 was added to the Communications Act by the Telephone Consumer Protection Act of 1991 and is most commonly known as the TCPA. The TCPA and the Commission's parallel rules restrict a variety of practices that are associated with telephone solicitation and use of the telephone network to deliver unsolicited advertisements, including fax advertising. 47 U.S.C. § 64.1200(a)(3); *Rules and Regulations Implementing the Telephone Consumer Protection Act of 1991 – Junk Fax Protection Act of 2005*, Report and Order and Third Order on Reconsideration, 21 FCC Red 3787 (2006) (2006 TCPA Report and Order).

² We have attached one complaint at issue in this citation. The complaint addresses a facsimile advertisement that contains the telephone number 516-491-1891, which your business utilized during the time period at issue.

Federal Communications Commission

computer, or other device to send an unsolicited advertisement to a telephone facsimile machine.”³ As relevant here, an “unsolicited advertisement” is “any material advertising the commercial availability or quality of any property, goods, or services which is transmitted to any person without that person’s prior express invitation or permission.”⁴ Mere distribution or publication of a fax number does not establish consent to receive advertisements by fax.⁵ Fax advertisements may be sent to recipients with whom the sender has an established business relationship, as long as the fax number was provided voluntarily by the recipient.⁶ An established business relationship is defined as a prior or existing relationship formed by a voluntary two-way communication between a person or entity and a business or residential subscriber with or without an exchange of consideration, based on a purchase, inquiry, application or transaction by that subscriber regarding products or services offered by such person or entity. This relationship must not have been previously terminated by either party.⁷ A fax advertisement may be sent to a recipient with whom the sender has an established business relationship only if the sender also:⁸

- (i) obtains the fax number directly from the recipient;⁹ or

³ 47 U.S.C. § 227(b)(1)(C); see also 47 C.F.R. § 64.1200(a)(3) (providing that no person or entity may . . . use a telephone facsimile machine, computer, or other device to send an unsolicited advertisement to a telephone facsimile machine). Both the TCPA and the Commission’s rules define “telephone facsimile machine” as “equipment which has the capacity to transcribe text or images, or both, from paper into an electronic signal and to transmit that signal over a regular telephone line, or to transcribe text or images (or both) from an electronic signal received over a regular telephone line onto paper.” 47 U.S.C. § 227(a)(3); 47 C.F.R. § 64.1200(f)(11). The Commission has stated that “[t]he TCPA’s definition of ‘telephone facsimile machine’ broadly applies to any equipment that has the capacity to send or receive text or images.” Thus, “faxes sent to personal computers equipped with, or attached to, modems and to computerized fax servers are subject to the TCPA’s prohibition on unsolicited faxes. . . [although] the prohibition does not extend to facsimile messages sent as email over the Internet.” *Rules and Regulations Implementing the Telephone Consumer Protection Act of 1991*, Report and Order, 18 FCC Rod 14014, 14131-32 (2003) (2003 TCPA Report and Order).

⁴ 47 U.S.C. § 227(a)(5); 47 C.F.R. § 64.1200(f)(13) (defining “unsolicited advertisement” to specify that prior express invitation or permission may be “in writing or otherwise”).

⁵ See *Rules and Regulations Implementing the Telephone Consumer Protection Act of 1991*, Memorandum Opinion and Order, 10 FCC Rod 12391, 12408-09 (1995) (1995 TCPA Reconsideration Order); see also 2003 TCPA Report and Order, 18 FCC Rod at 14128 (concluding that mere publication of a fax number in a trade publication or directory does not demonstrate consent to receive fax advertising).

⁶ 47 U.S.C. § 227(b)(1)(C); 47 C.F.R. 64.1200(a)(3)(ii).

⁷ 47 U.S.C. § 227(a)(2); 47 C.F.R. 64.1200(f)(5); see also 2006 TCPA Report and Order, 21 FCC Rod at 3797-3799. An inquiry about a store location or merely visiting a company website does not create an established business relationship; an inquiry must seek information about the products or services offered by the company. Once established, nonetheless, a business relationship will permit an entity to send facsimile advertisements until the recipient “terminates” the relationship by making a request not to receive future faxes. 2006 TCPA Report and Order, 21 FCC Rod at 3798.

⁸ If a valid EBR existed between the fax sender and recipient prior to July 9, 2005, and the sender also possessed the facsimile number prior to July 9, 2005, the sender may send the facsimile advertisements to that recipient without demonstrating how the number was obtained or verifying it was provided voluntarily by the recipient. 47 U.S.C. § 227(b)(1)(C)(ii); 47 C.F.R. § 64.1200 (a)(ii)(C); see also 2006 TCPA Report and Order, 21 FCC Rod at 3796.

⁹ 47 U.S.C. § 227(b)(1)(C)(ii)(I); 47 C.F.R. § 64.1200 (a)(ii)(A).

Federal Communications Commission

(ii) obtains the fax number from the recipient's own directory, advertisement, or site on the Internet, unless the recipient has noted on such materials that it does not accept unsolicited advertisements at the fax number in question;¹⁰ or

(iii) has taken reasonable steps to verify that the recipient agreed to make the number available for public distribution, if obtained from a directory or other source of information compiled by a third party.¹¹

Finally, in the event of a complaint or dispute, the burden rests with the fax sender to demonstrate that it either obtained prior express permission to send the facsimile advertisement or satisfied all the criteria necessary to invoke the established business relationship exemption.¹²

If, after receipt of this citation, you or your company violate the Communications Act or the Commission's rules in any manner described herein, the Commission may impose monetary forfeitures not to exceed \$11,000 for each such violation or each day of a continuing violation.

You may respond to this citation within thirty (30) days from the date of this letter either through (1) a personal interview at the Commission's Field Office nearest to your place of business, (2) a written statement, or (3) a teleconference interview with the Commission's Telecommunications Consumers Division in Washington, DC. Your response should specify the actions that you are taking to ensure that you do not violate the Commission's rules governing telephone solicitation and unsolicited advertisements, as described above.

Please contact Delores Browder at (202) 418-2861 to arrange for an interview at the closest field office, if you wish to schedule a personal interview. You should schedule any interview to take place within thirty (30) days of the date of this letter. You should send any written statement within thirty (30) days of the date of this letter to:

Kurt A. Schroeder
Deputy Chief
Telecommunications Consumers Division
Enforcement Bureau
Federal Communications Commission
445-12th Street, S.W., Rm. 4-C222
Washington, D.C. 20554

Reference EB-08-TC-2410 when corresponding with the Commission.

Reasonable accommodations for people with disabilities are available upon request. Include a description of the accommodation you will need including as much detail as you can.

¹⁰ 47 U.S.C. § 227(b)(1)(C)(ii)(II); 47 C.F.R. § 64.1200 (a)(ii)(B).

¹¹ 47 U.S.C. § 227(b)(1)(C)(ii)(II); 47 C.F.R. § 64.1200 (a)(ii)(B); *see also* 2006 TCPA Report and Order, 21 FCC Rcd at 3795 ("[I]f the sender obtains the number from sources of information compiled by third parties—e.g., membership directories, commercial databases, or internet listings—the sender must take reasonable steps to verify that the recipient consented to have the number listed, such as calling or emailing the recipient.").

¹² 2006 TCPA Report and Order, 21 FCC Rcd at 3793-9, 3795, 3812.

Federal Communications Commission

Also include a way we can contact you if we need more information. Please allow at least 5 days advance notice; last minute requests will be accepted, but may be impossible to fill. Send an e-mail to fcc504@fcc.gov or call the Consumer & Governmental Affairs Bureau:

For sign language interpreters, CART, and other reasonable accommodations:
202-418-0530 (voice), 202-418-0432 (tty);

For accessible format materials (braille, large print, electronic files, and audio format): 202-418-0531 (voice), 202-418-7365 (tty).

Under the Privacy Act of 1974, 5 U.S.C. § 552(a)(e)(3), we are informing you that the Commission's staff will use all relevant material information before it, including information that you disclose in your interview or written statement, to determine what, if any, enforcement action is required to ensure your compliance with the Communications Act and the Commission's rules.

The knowing and willful making of any false statement, or the concealment of any material fact, in reply to this citation is punishable by fine or imprisonment under 18 U.S.C. § 1001.

Thank you in advance for your anticipated cooperation.

Sincerely,

Kurt A. Schroeder
Deputy Chief, Telecommunications Consumers Division
Enforcement Bureau
Federal Communications Commission

Enclosures

TRIAL EXHIBIT 119

REED SMITH LLP

A limited liability partnership formed in the State of Delaware

1 Tyree P. Jones, Jr. (SBN 127631)
tpjones@reedsmith.com
2 REED SMITH LLP
1301 K Street, NW
3 Ste. 1100 – East Tower
Washington, DC 20005
4 Telephone: +1 202 414 9296
Facsimile: +1 202 414 9299

5 Attorneys for Defendants
6 McKesson Technologies, Inc.
and McKesson Corporation
7

8 UNITED STATES DISTRICT COURT
9 NORTHERN DISTRICT OF CALIFORNIA
10

11 TRUE HEALTH CHIROPRACTIC, INC., an
Ohio corporation, and MCLAUGHLIN
12 CHIROPRACTIC ASSOCIATES, INC., a
Tennessee corporation, individually and as the
13 representatives of a class of similarly-situated
persons,

14 Plaintiffs,

15 vs.
16

17 MCKESSON CORPORATION,
MCKESSON TECHNOLOGIES, INC., and
18 JOHN DOES 1-10,

19 Defendants.
20

CASE NO.: 3:13-cv-02219 JST

**MCKESSON CORPORATION'S
ANSWER TO SECOND AMENDED
CLASS ACTION COMPLAINT**

Hon. Jon S. Tigar

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA Trial Exhibit 119 Case No: 4:13-cv-02219-HSG Date Entered: _____ By: _____ Deputy Clerk

21 Defendant McKesson Corporation¹ ("McKesson"), through its undersigned counsel, hereby
22 answers the allegations of the Second Amended Class Action Complaint ("Complaint") filed in this
23 action by True Health Chiropractic, Inc. ("True Health") and McLaughlin Chiropractic Associates,
24 Inc. ("McLaughlin" and, collectively, "Plaintiffs"). Unless expressly admitted herein, McKesson
25 lacks sufficient information at this time to admit or deny the allegations of the Complaint and, on
26 that basis, denies the allegations as follows:

27 ¹ McKesson maintains that it has been erroneously sued and is not a proper party to this action.
28

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24
- 25
- 26
- 27
- 28

2
3

4
5
6
7
8
9
10
11
12

14

15
16
1718
19

20

21
22

23

24

25
26

27

28

1 9. Answering Paragraph 9 of the Complaint, McKesson admits, on information and belief, that
2 Plaintiff McLaughlin is a Tennessee Corporation with its principal place of business located in
3 Tennessee.

4 10. Answering Paragraph 10 of the Complaint, McKesson admits that McKesson Corporation is
5 a Delaware corporation with its principal place of business in San Francisco, California.

6 11. Answering Paragraph 11 of the Complaint, McKesson lacks sufficient information to admit
7 or deny the allegations contained therein and, on that basis, denies the allegations.

8 **FACTS**

9 12. Answering Paragraph 12 of the Complaint, McKesson lacks sufficient information to admit
10 or deny the allegations contained therein, and on that basis, denies the allegations.

11 13. Answering Paragraph 13 of the Complaint, McKesson lacks sufficient information to admit
12 or deny the allegations contained therein and, on that basis, denies the allegations.

13 14. Answering Paragraph 14 of the Complaint, McKesson lacks sufficient information to admit
14 or deny the allegations contained therein and, on that basis, denies the allegations.

15 15. Answering Paragraph 15 of the Complaint, McKesson lacks sufficient information to admit
16 or deny the allegations contained therein and, on that basis, denies the allegations.

17 16. Answering Paragraph 16 of the Complaint, McKesson lacks sufficient information to admit
18 or deny the allegations contained therein and, on that basis, denies the allegations.

19 17. Answering Paragraph 17 of the Complaint, McKesson lacks sufficient information to admit
20 or deny the allegations contained therein and, on that basis, denies the allegations.

21 18. Answering Paragraph 18 of the Complaint, McKesson lacks sufficient information to admit
22 or deny the allegations contained therein and, on that basis, denies the allegations.

23 19. Answering Paragraph 19 of the Complaint, McKesson lacks sufficient information to admit
24 or deny the allegations contained therein and, on that basis, denies the allegations.

25 20. Answering Paragraph 20 of the Complaint, McKesson admits that Exhibit C to the Second
26 Amended Class Action Complaint appears to be a true and correct copy of a document received by
27 McKesson from the Federal Communications Commission ("FCC"), which speaks for itself. Except

28 ///

1 as expressly admitted herein, McKesson lacks sufficient information to admit or deny the allegations
2 contained in Paragraph 20 and, on that basis, denies the allegations.

3 **CLASS ACTION ALLEGATIONS**

4 21. Answering Paragraph 21 of the Complaint, McKesson lacks sufficient information to admit
5 or deny the allegations contained therein and, on that basis, denies the allegations.

6 22. Answering Paragraph 22 of the Complaint, McKesson lacks sufficient information to admit
7 or deny the allegations contained therein and, on that basis, denies the allegations.

8 23. Answering Paragraph 23 of the Complaint and its subparts, McKesson lacks sufficient
9 information to admit or deny the allegations contained therein and, on that basis, denies the
10 allegations.

11 24. Answering Paragraph 24 of the Complaint, McKesson lacks sufficient information to admit
12 or deny the allegations contained therein and, on that basis, denies the allegations.

13 25. Answering Paragraph 25 of the Complaint, McKesson lacks sufficient information to admit
14 or deny the allegations contained therein and, on that basis, denies the allegations.

15 26. Answering Paragraph 26 of the Complaint, McKesson lacks sufficient information to admit
16 or deny the allegations contained therein and, on that basis, denies the allegations.

17 27. Answering Paragraph 27 of the Complaint, McKesson lacks sufficient information to admit
18 or deny the allegations contained therein and, on that basis, denies the allegations.

19 28. Answering Paragraph 28 of the Complaint and its subparts, McKesson lacks sufficient
20 information to admit or deny the allegations contained therein and, on that basis, denies the
21 allegations.

22 **COUNT I**

23 29. Answering Paragraph 29 of the Complaint, McKesson repeats and re-alleges each of its
24 responses to the allegations set forth in Paragraphs 1 through 29 above as if fully set forth herein.

25 30. Answering Paragraph 30 of the Complaint, McKesson states that the paragraph contains a
26 legal citation, which speaks for itself, but admits that the language reproduced is from the JFPA.

27 31. Answering Paragraph 31 of the Complaint, McKesson states that the paragraph contains a
28 legal citation, which speaks for itself, but admits that the language reproduced is from the JFPA.

1 32. Answering Paragraph 32 of the Complaint and its subparts, McKesson lacks sufficient
2 information to admit or deny the allegations contained therein and, on that basis, denies the
3 allegations.

4 33. Answering Paragraph 33 of the Complaint and its subparts, McKesson lacks sufficient
5 information to admit or deny the allegations contained therein and, on that basis, denies the
6 allegations.

7 34. Answering Paragraph 34 of the Complaint, McKesson lacks sufficient information to admit
8 or deny the allegations contained therein and, on that basis, denies the allegations. Further,
9 Paragraph 34 contains legal conclusion to which no response is required.

10 35. Answering Paragraph 35 of the Complaint, McKesson lacks sufficient information to admit
11 or deny the allegations contained therein and, on that basis, denies the allegations. Further,
12 Paragraph 35 contains legal conclusions to which no response is required.

13 36. Answering Paragraph 36 of the Complaint, McKesson states that the paragraph contains a
14 legal citation, which speaks for itself. As to the remaining allegations, McKesson lacks sufficient
15 information to admit or deny the remaining allegations contained therein and, on that basis, denies
16 the allegations.

17 37. Answering Paragraph 37 of the Complaint, McKesson lacks sufficient information to admit
18 or deny the allegations contained therein and, on that basis, denies the allegations.

19 38. Answering Paragraph 38 of the Complaint, McKesson lacks sufficient information to admit
20 or deny the allegations contained therein and, on that basis, denies the allegations.

21 39. Answering Paragraph 39 of the Complaint, McKesson lacks sufficient information to admit
22 or deny the allegations contained therein and, on that basis, denies the allegations.

23 ///

24 ///

25 ///

26 ///

27 ///

28 ///

AFFIRMATIVE DEFENSES

FIRST AFFIRMATIVE DEFENSE

(Failure to State a Claim)

1. McKesson alleges as an affirmative defense that the Complaint, and each cause of action asserted therein, fails to allege sufficient facts to state any claim for which relief can be granted.

SECOND AFFIRMATIVE DEFENSE

(Express Prior Consent)

2. McKesson alleges as an affirmative defense that Plaintiffs cannot recover damages under the TCPA because they gave their express prior consent.

THIRD AFFIRMATIVE DEFENSE

(Estoppel)

3. McKesson alleges as an affirmative defense that Plaintiffs are barred by the doctrine of estoppel from asserting the claims, rights and demands made in the Complaint, because McKesson reasonably and justifiably relied on its contracts, if any, with Plaintiffs, and upon the terms and conditions stated therein, to Plaintiffs' benefit.

FOURTH AFFIRMATIVE DEFENSE

(Established Business Relationship)

4. McKesson alleges as an affirmative defense that Plaintiffs cannot recover damages under the TCPA because Plaintiffs have an established business relationship with McKesson.

FIFTH AFFIRMATIVE DEFENSE

(Standing)

5. McKesson alleges as an affirmative defense that Plaintiffs lack standing to bring this action because they suffered no cognizable injury.

SIXTH AFFIRMATIVE DEFENSE

(Speculative Damage)

6. McKesson alleges as an affirmative defense that the damages claimed by Plaintiffs in the Complaint are too speculative to support any cognizable claim for relief.

///

SEVENTH AFFIRMATIVE DEFENSE**(Failure to Mitigate)**

7. McKesson alleges as an affirmative defense that Plaintiffs failed, refused and/or neglected to take reasonable steps to mitigate their alleged damages, if any, thus barring or diminishing any recovery by them against McKesson.

EIGHTH AFFIRMATIVE DEFENSE**(Failure to State a Claim for Statutory Damages or Injunctive Relief)**

8. McKesson alleges as an affirmative defense that the Complaint fails to state facts sufficient to entitle Plaintiffs to recover statutory damages or injunctive relief.

NINTH AFFIRMATIVE DEFENSE**(Consistent With Law and Applicable Regulations)**

9. McKesson alleges as an affirmative defense that the Complaint and each claim set forth therein are barred because McKesson's conduct was consistent with all applicable law and regulations.

TENTH AFFIRMATIVE DEFENSE**(Statutory Compliance)**

10. McKesson alleges as an affirmative defense that McKesson has complied and is complying with all applicable provisions of federal law.

ELEVENTH AFFIRMATIVE DEFENSE**(Statutory Penalties Unconstitutional)**

11. McKesson alleges as an affirmative defense that the TCPA penalty provision is unconstitutional under the United States Constitution as an excessive fine.

TWELFTH AFFIRMATIVE DEFENSE**(Unconstitutional Restriction on Free Speech)**

12. McKesson alleges as an affirmative defense that the TCPA violates the First Amendment to the U.S. Constitution because of its overly broad prohibition against free speech on its face and as applied.

///

THIRTEENTH AFFIRMATIVE DEFENSE**(Class Action Improper – Lack of Typicality)**

13. McKesson alleges as an affirmative defense that Plaintiffs' action is not proper for class action certification pursuant to Rule 23 of the Federal Rules of Civil Procedure ("FRCP") as Plaintiffs' claims are not typical of the claims of the purported class members.

FOURTEENTH AFFIRMATIVE DEFENSE**(Class Action Improper – No Predominance of Common Questions)**

14. McKesson alleges as an affirmative defense that Plaintiffs' action is not proper for class action certification pursuant to FRCP 23 as the questions of law and/or fact common to the purported class do not predominate over questions affecting individual members of the purported class.

FIFTEENTH AFFIRMATIVE DEFENSE**(Class Action Improper – Not Adequate Representatives)**

15. McKesson alleges as an affirmative defense that Plaintiffs' action is not proper for class action certification pursuant to FRCP 23 because Plaintiffs are not adequate class representatives and Plaintiffs' counsel would not be adequate counsel for any proposed class.

SIXTEENTH AFFIRMATIVE DEFENSE**(Class Action Not Superior)**

16. McKesson alleges as an affirmative defense that Plaintiffs' action is not proper for class action certification pursuant to FRCP 23 because class action treatment is not superior to individual resolution of claims.

SEVENTEENTH AFFIRMATIVE DEFENSE**(Class Action Improper – No Class-Wide Injury)**

17. McKesson alleges as an affirmative defense that Plaintiffs' action is not proper for class action certification pursuant to FRCP 23 because the class has not suffered a common injury.

EIGHTEENTH AFFIRMATIVE DEFENSE**(Class Definition Is Overbroad)**

18. McKesson alleges as an affirmative defense that Plaintiffs' proposed class definition is illegally overbroad because Plaintiffs fail to limit the proposed class to recipients of unsolicited

1 facsimiles and goes beyond the private right of action authorized by Congress in the TCPA.
2 Plaintiffs seek to include both recipients of unsolicited facsimiles and recipients of solicited
3 facsimiles in the proposed class. Congress only authorized regulation of, and a private right of action
4 for, recipients of unsolicited facsimiles. Plaintiffs cannot maintain a private cause of action under the
5 TCPA for recipients of solicited facsimiles.

6 **NINETEENTH AFFIRMATIVE DEFENSE**

7 **(No Private Right of Action)**

8 19. McKesson alleges as an affirmative defense that Plaintiffs' TCPA claim is barred to the
9 extent that no private right of action exists under the TCPA for failing to include an opt-out notice on
10 a facsimile sent with permission, invitation or consent, and Congress never intended to authorize
11 such regulation.

12 **TWENTIETH AFFIRMATIVE DEFENSE**

13 **(TCPA Is Unconstitutional as Applied to McKesson)**

14 20. McKesson alleges as an affirmative defense that the TCPA as applied to McKesson is
15 unconstitutional.

16 **TWENTY-FIRST AFFIRMATIVE DEFENSE**

17 **(Reservation of Rights and Additional Defenses)**

18 21. McKesson alleges as an affirmative defense that McKesson has insufficient knowledge of
19 information on which to form a belief as to whether it may have additional, as yet unstated,
20 affirmative defenses available in this action. McKesson therefore reserves the right to assert
21 additional affirmative defenses in the event discovery indicates that they may be appropriate.

22 **DEMAND FOR JURY TRIAL**

23 McKesson demands a trial by jury on all claims triable as of right by jury trial.

24 ///

25 ///

26 ///

27 ///

28 ///

WHEREFORE McKesson prays for judgment as follows:

- A. That Plaintiffs take nothing by reason of their Complaint;
- B. For costs of suit herein;
- C. For its attorneys' fees according to proof; and
- D. For such other and further relief as this Court may deem just and proper.

DATED: August 22, 2014.

By: /s/ Tyree P. Jones, Jr.
Tyree P. Jones, Jr. (SBN 127631)
tpjones@reedsmith.com
REED SMITH LLP
1301 K Street, NW
Ste. 1100 – East Tower
Washington, DC 20005
Telephone: +1 202 414 9296
Facsimile: +1 202 414 9299

Attorneys for Defendants
McKesson Corporation and
McKesson Technologies, Inc.

REED SMITH LLP
A limited liability partnership formed in the State of Delaware

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served electronically on Willem F. Jonckheer, Robert C. Schubert, George D. Jonson, Matthew E. Stubbs, Brian J. Wanca, Ryan M. Kelly and Glenn L. Hara via the Court's CM/ECF electronic noticing system, and was served via electronic mail on and Brian J. Wanca, on this 22nd day of August, 2014.

Willem F. Jonckheer
Robert C. Schubert
Schubert Jonckheer & Kolbe LLP
Three Embarcadero Center, Suite 1650
San Francisco, CA 94111
Telephone: 415-788-4220
Facsimile: 415-788-0161
Email: wjonckheer@schubertlawfirm.com
rschubert@schubertlawfirm.com

George D. Jonson
Matthew E. Stubbs
Montgomery, Rennie & Jonson
2100 Society Bank Center
36 E. 7th Street
Cincinnati, OH 45202
Telephone: 513-241-4722
Facsimile: 513-241-8775
Email: gjonson@mrjlaw.com
mstubbs@mrjlaw.com

Brian J. Wanca
Ryan M. Kelly
Glenn L. Hara
Anderson & Wanca
3701 Algonquin Road, Ste. 760
Rolling Meadows, IL 60008
Telephone: 847-368-1500
Facsimile: 847-368-1501
Email: bwanca@andersonwanca.com
rkelly@andersonwanca.com
ghara@andersonwanca.com

Counsel for Plaintiff True Health Chiropractic, Inc.

/s/ Tyree P. Jones, Jr.
Counsel for Defendants McKesson Corporation
and McKesson Technologies, Inc.

REED SMITH LLP
A limited liability partnership formed in the State of Delaware

PROOF OF SERVICE

Re: True Health Chiropractic, Inc. v. McKesson Corporation, et al.
United States District Court – Northern District of California - Case No.: 3:13cv02219 JST

I am a resident of the United States of America, in the State of California, am over the age of eighteen years, and not a party to the within action. My business address is REED SMITH LLP, 101 Second Street, Suite 1800, San Francisco, California 94105-3589. On **August 22, 2014**, I served the following document(s) by the method indicated below:

**MCKESSON CORPORATION'S ANSWER TO
 SECOND AMENDED CLASS ACTION COMPLAINT**

☒ by transmitting electronically via the Court's CM/ECF electronic filing system to the parties appearing on the docket as listed below.

Willem F. Jonckheer Robert C. Schubert Schubert Jonckheer & Kolbe LLP Three Embarcadero Center, Suite 1650 San Francisco, CA 94111	Attorneys for Plaintiff True Health Chiropractic, Inc. Telephone: 415-788-4220 Fax: 415-788-0161 E-mail: wjonckheer@schubertlawfirm.com rschubert@schubertlawfirm.com
George D. Jonson Matthew E. Stubbs Montgomery, Rennie & Jonson 2100 Society Bank Center 36 E. 7 th Street, Suite 2100 Cincinnati, OH 45202	Attorneys for Plaintiff True Health Chiropractic, Inc. Telephone: 513-241-4722 Fax: 513-241-8775 E-mail: gjonson@mrjlaw.com mstubbs@mrjlaw.com
Brian J. Wanca Ryan M. Kelly Glenn L. Hara Anderson & Wanca 3701 Algonquin Road, Ste. 760 Rolling Meadows, IL 60008	Attorneys for Plaintiff True Health Chiropractic, Inc. Telephone: 847-368-1500 Fax: 847-368-1501 E-mail: bwanca@andersonwanca.com rkelly@andersonwanca.com ghara@andersonwanca.com

I declare under penalty of perjury under the laws of the United States of America and the State of California that the above is true and correct. Executed on **August 22, 2014**, at San Francisco, California.



Tina Brennan

TRIAL EXHIBIT 120

REED SMITH LLP
A limited liability partnership formed in the State of Delaware

Tyree P. Jones, Jr. (SBN 127631)
tpjones@reedsmith.com
REED SMITH LLP
1301 K Street, NW
Ste. 1100 – East Tower
Washington, DC 20005
Telephone: +1 202 414 9296
Facsimile: +1 202 414 9299

Attorneys for Defendants
McKesson Technologies, Inc.
and McKesson Corporation

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

TRUE HEALTH CHIROPRACTIC, INC., an
Ohio corporation, and MCLAUGHLIN
CHIROPRACTIC ASSOCIATES, INC., a
Tennessee corporation, individually and as the
representatives of a class of similarly-situated
persons,

Plaintiffs,

vs.

MCKESSON CORPORATION,
MCKESSON TECHNOLOGIES, INC., and
JOHN DOES 1-10,

Defendants.

CASE NO.: 3:13-cv-02219 JST|

**MCKESSON TECHNOLOGIES, INC.’S
ANSWER TO SECOND AMENDED
CLASS ACTION COMPLAINT**

Hon. Jon S. Tigar

Defendant McKesson Technologies, Inc. (“MTI”), through its undersigned counsel, hereby
answers the allegations of the Second Amended Class Action Complaint (“Complaint”) filed in this
action by True Health Chiropractic, Inc. (“True Health”) and McLaughlin Chiropractic Associates,
Inc. (“McLaughlin” and, collectively, “Plaintiffs”). Unless expressly admitted herein, MTI lacks
sufficient information at this time to admit or deny the allegations of the Complaint and, on that
basis, denies the allegations as follows:

///

///

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA	
Trial Exhibit 120	
Case No:	4:13-cv-02219-HSG
Date Entered:	
By:	
Deputy Clerk	

PRELIMINARY STATEMENT

1
2 1. Answering Paragraph 1 of the Complaint, MTI denies that the facsimiles at issue were
3 unsolicited or that it has a “practice” of sending unsolicited facsimiles.

4 2. Answering Paragraph 2 of the Complaint, MTI admits that Plaintiffs purport to assert claims
5 against MTI under the Telephone Consumer Protection Act of 1991 (“TCPA”), as amended by the
6 Junk Fax Protection Act of 2005, 47 U.S.C. § 227 (“JFPA” or the “Act”). The statutory citation
7 speaks for itself and therefore requires no response. MTI admits that Exhibit A is a true and correct
8 copy of the facsimile transmission sent to Plaintiff True Health on April 20, 2010, and that Exhibit B
9 is a true and correct copy of the facsimile transmissions sent to Plaintiff McLaughlin on February 3,
10 2010, February 22, 2010, and May 11, 2010, respectively. Except as expressly admitted herein, MTI
11 lacks sufficient information to admit or deny the remaining allegations contained therein and, on that
12 basis, denies the remaining allegations.

13 3. Answering Paragraph 3 of the Complaint, MTI lacks sufficient information to admit or deny
14 the allegations contained therein and, on that basis, denies the allegations.

15 4. Answering Paragraph 4 of the Complaint, MTI admits that Plaintiffs seek relief under the
16 JFPA, but denies that it sent unsolicited advertisements or is liable for any statutory damages, and,
17 on that basis, denies the allegations.

18 5. Answering Paragraph 5 of the Complaint, MTI lacks sufficient information to admit or deny
19 the allegations contained therein and, on that basis, denies the allegations.

JURISDICTION AND VENUE

20
21 6. Answering Paragraph 6 of the Complaint, MTI admits that this Court has subject matter
22 jurisdiction under 28 U.S.C. §1331 and 47 U.S.C. §227 over this matter.

23 7. Answering Paragraph 7 of the Complaint, MTI admits that venue is proper.

PARTIES

24
25 8. Answering Paragraph 8 of the Complaint, MTI admits, on information and belief, that
26 Plaintiff True Health is an Ohio Corporation with its principal place of business located in Ohio.

27 ///

28 ///

9. Answering Paragraph 9 of the Complaint, MTI admits, on information and belief, that Plaintiff McLaughlin is a Tennessee Corporation with its principal place of business located in Tennessee.

10. Answering Paragraph 10 of the Complaint, MTI admits, on information and belief, that MTI is a Delaware corporation with its principal place of business in Alpharetta, Georgia.

11. Answering Paragraph 11 of the Complaint, MTI lacks sufficient information to admit or deny the allegations contained therein and, on that basis, denies the allegations.

FACTS

12. Answering Paragraph 12 of the Complaint, MTI admits that the facsimile reproduced in Exhibit A is a true and accurate copy of the facsimile transmission sent by MTI to Plaintiff True Health on or about April 20, 2010. MTI denies that such transmission was unsolicited and, on that basis, denies the allegations.

13. Answering Paragraph 13 of the Complaint, MTI admits that the facsimiles reproduced in Exhibit B are true and accurate copies of the facsimile transmissions sent by MTI to Plaintiff McLaughlin on or about February 3, 2010, February 22, 2010, and May 11, 2010. MTI denies that such transmissions were unsolicited and, on that basis, denies the allegations.

14. Answering Paragraph 14 of the Complaint, MTI lacks sufficient information to admit or deny the allegations contained therein and, on that basis, denies the allegations.

15. Answering Paragraph 15 of the Complaint, MTI lacks sufficient information to admit or deny the allegations contained therein and, on that basis, denies the allegations.

16. Answering Paragraph 16 of the Complaint, MTI denies the allegations.

17. Answering Paragraph 17 of the Complaint, MTI denies the allegations.

18. Answering Paragraph 18 of the Complaint, MTI lacks sufficient information to admit or deny the allegations contained therein and, on that basis, denies the allegations.

19. Answering Paragraph 19 of the Complaint, MTI lacks sufficient information to admit or deny the allegations contained therein and, on that basis, denies the allegations.

20. Answering Paragraph 20 of the Complaint, MTI admits that Exhibit C to the Second Amended Class Action Complaint appears to be a true and correct copy of a document received by

1 MTI from the Federal Communications Commission (“FCC”), which speaks for itself. Except as
2 expressly admitted herein, MTI lacks sufficient information to admit or deny the allegations
3 contained in Paragraph 20 and, on that basis, denies the allegations.

4 CLASS ACTION ALLEGATIONS

5 21. Answering Paragraph 21 of the Complaint, MTI lacks sufficient information to admit or deny
6 the allegations contained therein and, on that basis, denies the allegations.

7 22. Answering Paragraph 22 of the Complaint, MTI lacks sufficient information to admit or deny
8 the allegations contained therein and, on that basis, denies the allegations.

9 23. Answering Paragraph 23 of the Complaint and its subparts, MTI lacks sufficient information
10 to admit or deny the allegations contained therein and, on that basis, denies the allegations.

11 24. Answering Paragraph 24 of the Complaint, MTI denies the allegations.

12 25. Answering Paragraph 25 of the Complaint, MTI denies the allegations.

13 26. Answering Paragraph 26 of the Complaint, denies the allegations.

14 27. Answering Paragraph 27 of the Complaint, MTI denies the allegations.

15 28. Answering Paragraph 28 of the Complaint and its subparts, MTI denies the allegations.

16 COUNT I

17 29. Answering Paragraph 29 of the Complaint, MTI repeats and re-alleges each of its responses
18 to the allegations set forth in Paragraphs 1 through 29 above as if fully set forth herein.

19 30. Answering Paragraph 30 of the Complaint, MTI states that the paragraph contains a legal
20 citation, which speaks for itself, but admits that the language reproduced is from the JFPA.

21 31. Answering Paragraph 31 of the Complaint, MTI states that the paragraph contains a legal
22 citation, which speaks for itself, but admits that the language reproduced is from the JFPA.

23 32. Answering Paragraph 32 of the Complaint and its subparts, MTI lacks sufficient information
24 to admit or deny the allegations contained therein and, on that basis, denies the allegations.

25 33. Answering Paragraph 33 of the Complaint and its subparts, MTI lacks sufficient information
26 to admit or deny the allegations contained therein and, on that basis, denies the allegations.

27 ///

28 ///

34. Answering Paragraph 34 of the Complaint, MTI lacks sufficient information to admit or deny the allegations contained therein and, on that basis, denies the allegations. Further, Paragraph 34 contains legal conclusion to which no response is required.

35. Answering Paragraph 35 of the Complaint, MTI denies the allegations. Further, Paragraph 35 contains legal conclusions to which no response is required.

36. Answering Paragraph 36 of the Complaint, MTI states that the paragraph contains a legal citation, which speaks for itself. As to the remaining allegations, MTI lacks sufficient information to admit or deny the remaining allegations contained therein and, on that basis, denies the allegations.

37. Answering Paragraph 37 of the Complaint, MTI states that the paragraph contains a legal conclusion, and on that basis, denies the allegations.

38. Answering Paragraph 38 of the Complaint, MTI denies the allegations.

39. Answering Paragraph 39 of the Complaint, MTI denies the allegations.

AFFIRMATIVE DEFENSES

FIRST AFFIRMATIVE DEFENSE

(Failure to State a Claim)

1. MTI alleges as an affirmative defense that the Complaint, and each cause of action asserted therein, fails to allege sufficient facts to state any claim for which relief can be granted.

SECOND AFFIRMATIVE DEFENSE

(Express Prior Consent)

2. MTI alleges as an affirmative defense that Plaintiffs cannot recover damages under the TCPA because they gave their express prior consent.

THIRD AFFIRMATIVE DEFENSE

(Estoppel)

3. MTI alleges as an affirmative defense that Plaintiffs are barred by the doctrine of estoppel from asserting the claims, rights and demands made in the Complaint, because MTI reasonably and justifiably relied on its contracts, if any, with Plaintiffs, and upon the terms and conditions stated therein, to Plaintiffs' benefit.

FOURTH AFFIRMATIVE DEFENSE

(Established Business Relationship)

4. MTI alleges as an affirmative defense that Plaintiffs cannot recover damages under the TCPA because Plaintiffs have an established business relationship with MTI.

FIFTH AFFIRMATIVE DEFENSE

(Standing)

5. MTI alleges as an affirmative defense that Plaintiffs lack standing to bring this action because they suffered no cognizable injury.

SIXTH AFFIRMATIVE DEFENSE

(Speculative Damage)

6. MTI alleges as an affirmative defense that the damages claimed by Plaintiffs in the Complaint are too speculative to support any cognizable claim for relief.

SEVENTH AFFIRMATIVE DEFENSE

(Failure to Mitigate)

7. MTI alleges as an affirmative defense that Plaintiffs failed, refused and/or neglected to take reasonable steps to mitigate their alleged damages, if any, thus barring or diminishing any recovery by them against MTI.

EIGHTH AFFIRMATIVE DEFENSE

(Failure to State a Claim for Statutory Damages or Injunctive Relief)

8. MTI alleges as an affirmative defense that the Complaint fails to state facts sufficient to entitle Plaintiffs to recover statutory damages or injunctive relief.

NINTH AFFIRMATIVE DEFENSE

(Consistent With Law and Applicable Regulations)

9. MTI alleges as an affirmative defense that the Complaint and each claim set forth therein are barred because MTI's conduct was consistent with all applicable law and regulations.

///

///

///

TENTH AFFIRMATIVE DEFENSE**(Statutory Compliance)**

10. MTI alleges as an affirmative defense that MTI has complied and is complying with all applicable provisions of federal law.

ELEVENTH AFFIRMATIVE DEFENSE**(Statutory Penalties Unconstitutional)**

11. MTI alleges as an affirmative defense that the TCPA penalty provision is unconstitutional under the United States Constitution as an excessive fine.

TWELFTH AFFIRMATIVE DEFENSE**(Unconstitutional Restriction on Free Speech)**

12. MTI alleges as an affirmative defense that the TCPA violates the First Amendment to the U.S. Constitution because of its overly broad prohibition against free speech on its face and as applied.

THIRTEENTH AFFIRMATIVE DEFENSE**(Class Action Improper – Lack of Typicality)**

13. MTI alleges as an affirmative defense that Plaintiffs' action is not proper for class action certification pursuant to Rule 23 of the Federal Rules of Civil Procedure ("FRCP") as Plaintiffs' claims are not typical of the claims of the purported class members.

FOURTEENTH AFFIRMATIVE DEFENSE**(Class Action Improper – No Predominance of Common Questions)**

14. MTI alleges as an affirmative defense that Plaintiffs' action is not proper for class action certification pursuant to FRCP 23 as the questions of law and/or fact common to the purported class do not predominate over questions affecting individual members of the purported class.

FIFTEENTH AFFIRMATIVE DEFENSE**(Class Action Improper – Not Adequate Representatives)**

15. MTI alleges as an affirmative defense that Plaintiffs' action is not proper for class action certification pursuant to FRCP 23 because Plaintiffs are not adequate class representatives and Plaintiffs' counsel would not be adequate counsel for any proposed class.

SIXTEENTH AFFIRMATIVE DEFENSE**(Class Action Not Superior)**

16. MTI alleges as an affirmative defense that Plaintiffs' action is not proper for class action certification pursuant to FRCP 23 because class action treatment is not superior to individual resolution of claims.

SEVENTEENTH AFFIRMATIVE DEFENSE**(Class Action Improper – No Class-Wide Injury)**

17. MTI alleges as an affirmative defense that Plaintiffs' action is not proper for class action certification pursuant to FRCP 23 because the class has not suffered a common injury.

EIGHTEENTH AFFIRMATIVE DEFENSE**(Class Definition Is Overbroad)**

18. MTI alleges as an affirmative defense that Plaintiffs' proposed class definition is illegally overbroad because Plaintiffs fail to limit the proposed class to recipients of unsolicited facsimiles and goes beyond the private right of action authorized by Congress in the TCPA. Plaintiffs seek to include both recipients of unsolicited facsimiles and recipients of solicited facsimiles in the proposed class. Congress only authorized regulation of, and a private right of action for, recipients of unsolicited facsimiles. Plaintiffs cannot maintain a private cause of action under the TCPA for recipients of solicited facsimiles.

NINETEENTH AFFIRMATIVE DEFENSE**(No Private Right of Action)**

19. MTI alleges as an affirmative defense that Plaintiffs' TCPA claim is barred to the extent that no private right of action exists under the TCPA for failing to include an opt-out notice on a facsimile sent with permission, invitation or consent, and Congress never intended to authorize such regulation.

TWENTIETH AFFIRMATIVE DEFENSE**(TCPA Is Unconstitutional as Applied to MTI)**

20. MTI alleges as an affirmative defense that the TCPA as applied to MTI is unconstitutional.

///

TWENTY-FIRST AFFIRMATIVE DEFENSE
(Reservation of Rights and Additional Defenses)

21. MTI alleges as an affirmative defense that MTI has insufficient knowledge of information on which to form a belief as to whether it may have additional, as yet unstated, affirmative defenses available in this action. MTI therefore reserves the right to assert additional affirmative defenses in the event discovery indicates that they may be appropriate.

DEMAND FOR JURY TRIAL

MTI demands a trial by jury on all claims triable as of right by jury trial.

WHEREFORE MTI prays for judgment as follows:

- A. That Plaintiffs take nothing by reason of their Complaint;
- B. For costs of suit herein;
- C. For its attorneys' fees according to proof; and
- D. For such other and further relief as this Court may deem just and proper.

DATED: August 22, 2014.

By: /s/ Tyree P. Jones, Jr.
Tyree P. Jones, Jr. (SBN 127631)
tpjones@reedsmith.com
REED SMITH LLP
1301 K Street, NW
Ste. 1100 – East Tower
Washington, DC 20005
Telephone: +1 202 414 9296
Facsimile: +1 202 414 9299

Attorneys for Defendants
McKesson Corporation and
McKesson Technologies, Inc.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served electronically on Willem F. Jonckheer, Robert C. Schubert, George D. Jonson, Matthew E. Stubbs, Brian J. Wanca, Ryan M. Kelly and Glenn L. Hara via the Court's CM/ECF electronic noticing system, and was served via electronic mail on and Brian J. Wanca, on this 22nd day of August, 2014.

Willem F. Jonckheer
Robert C. Schubert
Schubert Jonckheer & Kolbe LLP
Three Embarcadero Center, Suite 1650
San Francisco, CA 94111
Telephone: 415-788-4220
Facsimile: 415-788-0161
Email: wjonckheer@schubertlawfirm.com
rschubert@schubertlawfirm.com

George D. Jonson
Matthew E. Stubbs
Montgomery, Rennie & Jonson
2100 Society Bank Center
36 E. 7th Street
Cincinnati, OH 45202
Telephone: 513-241-4722
Facsimile: 513-241-8775
Email: gjonson@mrjlaw.com
mstubbs@mrjlaw.com

Brian J. Wanca
Ryan M. Kelly
Glenn L. Hara
Anderson & Wanca
3701 Algonquin Road, Ste. 760
Rolling Meadows, IL 60008
Telephone: 847-368-1500
Facsimile: 847-368-1501
Email: bwanca@andersonwanca.com
rkelly@andersonwanca.com
ghara@andersonwanca.com

Counsel for Plaintiff True Health Chiropractic, Inc.

/s/ Tyree P. Jones, Jr.
Counsel for Defendants McKesson Corporation
and McKesson Technologies, Inc.

REED SMITH LLP
A limited liability partnership formed in the State of Delaware

PROOF OF SERVICE

Re: True Health Chiropractic, Inc. v. McKesson Corporation, et al.
United States District Court – Northern District of California - Case No.: 3:13cv02219 JST

I am a resident of the United States of America, in the State of California, am over the age of eighteen years, and not a party to the within action. My business address is REED SMITH LLP, 101 Second Street, Suite 1800, San Francisco, California 94105-3589. On **August 22, 2014**, I served the following document(s) by the method indicated below:

**MCKESSON TECHNOLOGIES, INC.'S ANSWER TO
 SECOND AMENDED CLASS ACTION COMPLAINT**

☒ by transmitting electronically via the Court's CM/ECF electronic filing system to the parties appearing on the docket as listed below.

Willem F. Jonckheer Robert C. Schubert Schubert Jonckheer & Kolbe LLP Three Embarcadero Center, Suite 1650 San Francisco, CA 94111	Attorneys for Plaintiff True Health Chiropractic, Inc. Telephone: 415-788-4220 Fax: 415-788-0161 E-mail: wjonckheer@schubertlawfirm.com rschubert@schubertlawfirm.com
George D. Jonson Matthew E. Stubbs Montgomery, Rennie & Jonson 2100 Society Bank Center 36 E. 7 th Street, Suite 2100 Cincinnati, OH 45202	Attorneys for Plaintiff True Health Chiropractic, Inc. Telephone: 513-241-4722 Fax: 513-241-8775 E-mail: gjonson@mrjlaw.com mstubbs@mrjlaw.com
Brian J. Wanca Ryan M. Kelly Glenn L. Hara Anderson & Wanca 3701 Algonquin Road, Ste. 760 Rolling Meadows, IL 60008	Attorneys for Plaintiff True Health Chiropractic, Inc. Telephone: 847-368-1500 Fax: 847-368-1501 E-mail: bwanca@andersonwanca.com rkelly@andersonwanca.com ghara@andersonwanca.com

I declare under penalty of perjury under the laws of the United States of America and the State of California that the above is true and correct. Executed on **August 22, 2014**, at San Francisco, California.


 Tina Brennan

TRIAL EXHIBIT 121

ROBERT C. SCHUBERT (CA SBN 62684)
WILLEM F. JONCKHEER (CA SBN 178748)
SCHUBERT JONCKHEER & KOLBE LLP
Three Embarcadero Center, Suite 1650
San Francisco, CA 94111
Telephone: (415) 788-4220
rschubert@schubertlawfirm.com
wjonckheer@schubertlawfirm.com

BRIAN J. WANCA (*pro hac vice*)
GLENN L. HARA (*pro hac vice*)
RYAN M. KELLY (*pro hac vice*)
ROSS M. GOOD (*pro hac vice*)
ANDERSON & WANCA
3701 Algonquin Road, Suite 500
Rolling Meadows, IL 60008
Telephone: (847) 368-1500
bwanca@andersonwanca.com
ghara@andersonwanca.com
rkelly@andersonwanca.com
rgood@andersonwanca.com

GEORGE D. JONSON (*pro hac vice*)
MATTHEW E. STUBBS (*pro hac vice*)
MONTGOMERY JONSON LLP
600 Vine Street, Suite 2650
Cincinnati, OH 45202
Telephone: 513-241-4722
gjonson@mojolaw.com
mstubbs@mojolaw.com

Attorneys for the Class

TIFFANY CHEUNG (CA SBN 211497)
TCheung@mofo.com
BONNIE LAU (CA SBN 246188)
BLau@mofo.com
JESSICA L. GRANT (CA SBN 178138)
JGrant@mofo.com
MORRISON & FOERSTER LLP
425 Market Street
San Francisco, California 94105-2482
Telephone: 415.268.7000
Facsimile: 415.268.7522

LYNDSEY H. CAIN (*pro hac vice*)
LCain@mofo.com
MORRISON & FOERSTER LLP
4200 Republic Plaza
370 Seventeenth Street
Denver, Colorado 0202-5638
Telephone: 303.592.2226
Facsimile: 303.592.1510

ERIN P. LUPFER (CA SBN 317994)
ELupfer@mofo.com
MORRISON & FOERSTER LLP
12531 High Bluff Drive
San Diego, California 92130-2040
Telephone: 858.720.5100
Facsimile: 858.720.5125

Attorneys for Defendants
MCKESSON TECHNOLOGIES INC.,
and MCKESSON CORPORATION

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
OAKLAND DIVISION

TRUE HEALTH CHIROPRACTIC INC., and
MCLAUGHLIN CHIROPRACTIC
ASSOCIATES, INC., individually and as the
representatives of a class of similarly-situated
persons,

Plaintiffs,

v.

MCKESSON CORPORATION,
MCKESSON TECHNOLOGIES INC.,
and DOES 1-10,

Defendants.

Case No. 4:13-cv-02219-HSG

**STIPULATION REGARDING TCPA
“ADVERTISEMENT” ELEMENT**

Trial Date: October 18, 2021
Time: 8:30 a.m.
Courtroom: 2, 4th Floor

The Hon. Judge Haywood S. Gilliam, Jr.

STIPULATION REGARDING TCPA “ADVERTISEMENT” ELEMENT
CASE NO. 4:13-CV-02219-HSG
sf-4545738

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA
Trial Exhibit 121
Case No: 4:13-cv-02219-HSG
Date Entered: _____
By: _____
Deputy Clerk

Plaintiff McLaughlin Chiropractic Associates, Inc. and the Class and Defendants McKesson Corporation and McKesson Technologies Inc. (collectively, the “Parties”), by and through their respective counsel, agree and stipulate as follows:

WHEREAS, this case is set for trial on October 18, 2021.

WHEREAS, one of the elements Plaintiff must prove for their Telephone Consumer Protection Act (“TCPA”) claim is that Defendants sent “advertisements” to class members. 47 U.S.C. § 227(a)(5), (b)(1)(C).

WHEREAS, there are thirty-four templates at issue in this case. (*See* ECF No. 292-8, Exs. 1B-34B.)

WHEREAS, the Parties have met and conferred regarding the issues remaining for trial.

WHEREAS, the Parties agree that for the purposes of this trial, template RS-TRUEHEALTH 000379 does not constitute an “advertisement” under the TCPA. (*See* ECF No. 292-8, Ex. 26B.)

WHEREAS, the Parties agree that for the purposes of this trial, the remaining thirty-three templates, listed below, constitute “advertisements” under the TCPA. (*See* ECF No. 292-8, Exs. 1B-25B, 27B-34B.)

1. RS-TRUEHEALTH 000352
2. RS-TRUEHEALTH 000353
3. RS-TRUEHEALTH 000354
4. RS-TRUEHEALTH 000355
5. RS-TRUEHEALTH 000356
6. RS-TRUEHEALTH 000357
7. RS-TRUEHEALTH 000358
8. RS-TRUEHEALTH 000359
9. RS-TRUEHEALTH 000360
10. RS-TRUEHEALTH 000361
11. RS-TRUEHEALTH 000362
12. RS-TRUEHEALTH 000363

13. RS-TRUEHEALTH 000364
14. RS-TRUEHEALTH 000365
15. RS-TRUEHEALTH 000366
16. RS-TRUEHEALTH 000367
17. RS-TRUEHEALTH 000368
18. RS-TRUEHEALTH 000370
19. RS-TRUEHEALTH 000372
20. RS-TRUEHEALTH 000373
21. RS-TRUEHEALTH 000374
22. RS-TRUEHEALTH 000375
23. RS-TRUEHEALTH 000376
24. RS-TRUEHEALTH 000377
25. RS-TRUEHEALTH 000378
26. RS-TRUEHEALTH 000381
27. RS-TRUEHEALTH 000382
28. RS-TRUEHEALTH 000383
29. RS-TRUEHEALTH 000384
30. RS-TRUEHEALTH 000385
31. RS-TRUEHEALTH 000386
32. RS-TRUEHEALTH 000387
33. RS-TRUEHEALTH 000388

NOW, THEREFORE, the parties stipulate that for the purposes of this trial, template RS-TRUEHEALTH 000379 is not an advertisement under the TCPA and that the remaining thirty-three listed templates are advertisements under the TCPA.

1 **IT IS SO STIPULATED.**

2
3 Dated: August 18, 2021

By: /s/ Ross M. Good
ROSS M. GOOD (admitted *pro hac vice*)
ANDERSON + WANCA

4
5 *Counsel for Plaintiff and the Class*

6
7
8 Dated: August 18, 2021

By: /s/ Tiffany Cheung
TIFFANY CHEUNG
MORRISON & FOERSTER LLP

9
10 *Counsel for Defendants*

11
12
13 **FILER'S ATTESTATION**

14 I, Tiffany Cheung, in compliance with Civil Local Rule 5-1(i)(3), attest that I have on file
15 the concurrences for any signatures indicated by a "conformed" signature (/s/) within this e-filed
16 document.

17
18 Dated: August 18, 2021

By: /s/ Tiffany Cheung
Tiffany Cheung

TRIAL EXHIBIT 122

ROBERT C. SCHUBERT (CA SBN 62684)
WILLEM F. JONCKHEER (CA SBN 178748)
SCHUBERT JONCKHEER & KOLBE LLP
Three Embarcadero Center, Suite 1650
San Francisco, CA 94111
Telephone: (415) 788-4220
rschubert@schubertlawfirm.com
wjonckheer@schubertlawfirm.com

BRIAN J. WANCA (*pro hac vice*)
GLENN L. HARA (*pro hac vice*)
RYAN M. KELLY (*pro hac vice*)
ROSS M. GOOD (*pro hac vice*)
ANDERSON & WANCA
3701 Algonquin Road, Suite 500
Rolling Meadows, IL 60008
Telephone: (847) 368-1500
bwanca@andersonwanca.com
ghara@andersonwanca.com
rkelly@andersonwanca.com
rgood@andersonwanca.com

GEORGE D. JONSON (*pro hac vice*)
MATTHEW E. STUBBS (*pro hac vice*)
MONTGOMERY JONSON LLP
600 Vine Street, Suite 2650
Cincinnati, OH 45202
Telephone: 513-241-4722
gjonson@mojolaw.com
mstubbs@mojolaw.com

Attorneys for the Class

TIFFANY CHEUNG (CA SBN 211497)
TCheung@mofo.com
BONNIE LAU (CA SBN 246188)
BLau@mofo.com
JESSICA L. GRANT (CA SBN 178138)
JGrant@mofo.com
MORRISON & FOERSTER LLP
425 Market Street
San Francisco, California 94105-2482
Telephone: 415.268.7000
Facsimile: 415.268.7522

LYNDSEY H. CAIN (*pro hac vice*)
LCain@mofo.com
MORRISON & FOERSTER LLP
4200 Republic Plaza
370 Seventeenth Street
Denver, Colorado 80202-5638
Telephone: 303.592.2226
Facsimile: 303.592.1510

ERIN P. LUPFER (CA SBN 317994)
ELupfer@mofo.com
MORRISON & FOERSTER LLP
12531 High Bluff Drive
San Diego, California 92130-2040
Telephone: 858.720.5100
Facsimile: 858.720.5125

Attorneys for Defendants
MCKESSON TECHNOLOGIES INC.,
and MCKESSON CORPORATION

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
OAKLAND DIVISION

TRUE HEALTH CHIROPRACTIC INC., and
MCLAUGHLIN CHIROPRACTIC
ASSOCIATES, INC., individually and as the
representatives of a class of similarly-situated
persons,

Plaintiffs,

v.

MCKESSON CORPORATION,
MCKESSON TECHNOLOGIES INC.,
and DOES 1-10,

Defendants.

Case No. 4:13-cv-02219-HSG

**STIPULATION REGARDING
“SENDER” ELEMENT FOR TCPA
LIABILITY PURPOSES**

Trial Date: October 18, 2021
Time: 8:30 a.m.
Courtroom: 2, 4th Floor

The Hon. Judge Haywood S. Gilliam, Jr.

STIPULATION REGARDING “SENDER” ELEMENT FOR TCPA LIABILITY PURPOSES
CASE NO. 4:13-CV-02219-HSG
sf-4545570

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA	
Trial Exhibit 122	
Case No:	4:13-cv-02219-HSG
Date Entered:	
By:	
Deputy Clerk	

1 Plaintiff McLaughlin Chiropractic Associates, Inc. and the Class and Defendants
2 McKesson Corporation and McKesson Technologies Inc. (collectively, the “Parties”), by and
3 through their respective counsel, agree and stipulate as follows:

4 WHEREAS, this case is set for trial on October 18, 2021.

5 WHEREAS, one of the elements Plaintiff must prove for their Telephone Consumer
6 Protection Act (“TCPA”) claim is that each Defendant “sent” the faxes at issue. The TCPA does
7 not define the term “send” or “sender,” but FCC regulations define “sender” as “the person or
8 entity on whose behalf a facsimile unsolicited advertisement is sent or whose goods or services
9 are advertised or promoted in the unsolicited advertisement.” 47 C.F.R. § 64.1200(f)(11).

10 WHEREAS, the Parties have met and conferred regarding the issues remaining for trial.

11 WHEREAS, for the purposes of this trial, McKesson Technologies Inc. (“MTI”) does not
12 contest that for the faxes that Plaintiff can establish were sent to a facsimile machine, it was a
13 “sender” for liability purposes on this one element of the TCPA because it owned the software
14 products Medisoft, Lytec, and Practice Partner, the subjects of the fax templates at issue, during
15 the relevant time period.

16 WHEREAS, for the purposes of this trial, McKesson Corporation does not contest that for
17 the faxes that Plaintiff can establish were sent to a facsimile machine, it was a “sender” for
18 liability purposes on this one element of the TCPA based solely on MTI’s status as a wholly-
19 owned subsidiary of McKesson Corporation during the relevant time period and MTI’s ownership
20 of Medisoft, Lytec, and Practice Partner at that time.

21 WHEREAS, for the purposes of the jury trial, the Parties agree that Plaintiff does not need
22 to prove the “sender” element for liability purposes on this one element of the TCPA, pursuant to
23 47 C.F.R. § 64.1200(f)(11).

24 NOW, THEREFORE, the Parties stipulate that, for the purposes of this trial, each
25 Defendant was a “sender” for liability purposes on this one element of the TCPA for the reasons
26 stated above.

1 **IT IS SO STIPULATED.**

2
3 Dated: August 20, 2021

By: /s/ Ross M. Good
ROSS M. GOOD (admitted *pro hac vice*)
ANDERSON + WANCA

4
5 *Counsel for Plaintiff and the Class*

6
7
8 Dated: August 20, 2021

By: /s/ Tiffany Cheung
TIFFANY CHEUNG
MORRISON & FOERSTER LLP

9
10 *Counsel for Defendants*

11
12
13 **FILER'S ATTESTATION**

14 I, Tiffany Cheung, in compliance with Civil Local Rule 5-1(i)(3), attest that I have on file
15 the concurrences for any signatures indicated by a "conformed" signature (/s/) within this e-filed
16 document.

17
18 Dated: August 20, 2021

By: /s/ Tiffany Cheung
Tiffany Cheung

TRIAL EXHIBIT 123

ROBERT C. SCHUBERT (CA SBN 62684)
WILLEM F. JONCKHEER (CA SBN 178748)
SCHUBERT JONCKHEER & KOLBE LLP
Three Embarcadero Center, Suite 1650
San Francisco, CA 94111
Telephone: (415) 788-4220
rschubert@schubertlawfirm.com
wjonckheer@schubertlawfirm.com

BRIAN J. WANCA (*pro hac vice*)
GLENN L. HARA (*pro hac vice*)
RYAN M. KELLY (*pro hac vice*)
ROSS M. GOOD (*pro hac vice*)
ANDERSON & WANCA
3701 Algonquin Road, Suite 500
Rolling Meadows, IL 60008
Telephone: (847) 368-1500
bwanca@andersonwanca.com
ghara@andersonwanca.com
rkelly@andersonwanca.com
rgood@andersonwanca.com

GEORGE D. JONSON (*pro hac vice*)
MATTHEW E. STUBBS (*pro hac vice*)
MONTGOMERY JONSON LLP
600 Vine Street, Suite 2650
Cincinnati, OH 45202
Telephone: 513-241-4722
gjonson@mojolaw.com
mstubbs@mojolaw.com

Attorneys for Plaintiffs

TIFFANY CHEUNG (CA SBN 211497)
TCheung@mofo.com
BONNIE LAU (CA SBN 246188)
BLau@mofo.com
JESSICA L. GRANT (CA SBN 178138)
JGrant@mofo.com
MORRISON & FOERSTER LLP
425 Market Street
San Francisco, California 94105-2482
Telephone: 415.268.7000
Facsimile: 415.268.7522

LYNDSEY H. CAIN (*pro hac vice*)
LCain@mofo.com
MORRISON & FOERSTER LLP
4200 Republic Plaza
370 Seventeenth Street
Denver, Colorado 80202-5638
Telephone: 303.592.2226
Facsimile: 303.592.1510

ERIN P. LUPFER (CA SBN 317994)
ELupfer@mofo.com
MORRISON & FOERSTER LLP
12531 High Bluff Drive
San Diego, California 92130-2040
Telephone: 858.720.5100
Facsimile: 858.720.5125

Attorneys for Defendants
MCKESSON TECHNOLOGIES INC.
and MCKESSON CORPORATION

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
OAKLAND DIVISION

TRUE HEALTH CHIROPRACTIC INC. and
MCLAUGHLIN CHIROPRACTIC
ASSOCIATES, INC.,

Plaintiffs,

v.

MCKESSON CORPORATION,
MCKESSON TECHNOLOGIES INC.,
and DOES 1-10,

Defendants.

Case No. 4:13-cv-02219-HSG

**STIPULATION REGARDING
NAMED PLAINTIFFS' INDIVIDUAL
RECEIPT OF FAXES AT ISSUE**

The Hon. Judge Haywood S. Gilliam, Jr.

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA	
Trial Exhibit 123	
Case No:	4:13-cv-02219-HSG
Date Entered:	
By:	
Deputy Clerk	

1 Plaintiffs McLaughlin Chiropractic Associates, Inc. and True Health Chiropractic, Inc.
 2 (collectively, “Plaintiffs”) and Defendants McKesson Corporation and McKesson Technologies
 3 Inc. (collectively, “Defendants,” and together with Plaintiffs, the “Parties”), by and through their
 4 respective counsel, agree and stipulate as follows:

5 WHEREAS, following the Court’s order decertifying the Stand-Alone Fax Machine
 6 Class, (ECF No. 487), the individual claims of Plaintiffs McLaughlin Chiropractic Associates,
 7 Inc. and True Health Chiropractic, Inc. remain unresolved.

8 WHEREAS, the Parties have met and conferred regarding streamlining the resolution of
 9 the current remaining issue to resolve Plaintiffs’ individual claims.

10 NOW, THEREFORE, based on the individual evidence in the record in this case, and for
 11 purposes of streamlining the resolution of Plaintiffs’ individual TCPA liability claims in this
 12 proceeding only, Defendants do not contest that:

13 (1) Plaintiff True Health Chiropractic, Inc. received ECF No. 90 (Second Amended
 14 Complaint), Exhibit A and that Plaintiff McLaughlin Chiropractic Associates, Inc.
 15 received ECF No. 90 (Second Amended Complaint), Exhibits B-1, B-2, B-3 on a
 16 “telephone facsimile machine” for purposes of Plaintiffs’ claims under 47 U.S.C.
 17 § 227(b)(1)(C)¹;

18 (2) Plaintiff McLaughlin Chiropractic Associates, Inc. received a copy of RS-
 19 TRUEHEALTH 000352, RS-TRUEHEALTH 000355, RS-TRUEHEALTH 000360, RS-
 20 TRUEHEALTH 000364, RS-TRUEHEALTH 000367, RS-TRUEHEALTH 000370, RS-
 21 TRUEHEALTH 000375, RS-TRUEHEALTH 000384, and RS-TRUEHEALTH 000386,
 22 according to certain information referenced in (RS-TRUEHEALTH 000404, RS-
 23 TRUEHEALTH 000406, Tab #1 of RS-TRUEHEALTH 000345, Tab #2 of RS-
 24 TRUEHEALTH 000345, Tab #4 of RS-TRUEHEALTH 000345, Tab #3 of RS-

25
 26 ¹ The Parties dispute how to interpret and apply this standard, but this dispute need not be
 27 resolved for purposes of this stipulation. Defendants contend that this standard was correctly
 28 construed by the FCC Consumer and Governmental Affairs Bureau in *In re Amerifactors Fin.*
Grp., LLC Petition for Expedited Declaratory Ruling, CG Dkt. Nos. 02-278, 05-338, 2019 WL
 6712128, ¶¶ 3, 8, 11 (Dec. 9, 2019), while Plaintiffs disagree.

TRUEHEALTH 000350, Tab #3 of RS-TRUEHEALTH 000345, RS-TRUEHEALTH 000422, RS-TRUEHEALTH 000424, RS-TRUEHEALTH 000428, RS-TRUEHEALTH 000435, Tab #1 of RS-TRUEHEALTH 000350)² on a “telephone facsimile machine” for purposes of Plaintiffs’ claims under 47 U.S.C. § 227(b)(1)(C); and

(3) The faxes identified above constitute “advertisements” under the TCPA only for purposes of this proceeding on Plaintiffs’ individual TCPA claims.

Dated: October 29, 2021

By: /s/ Ross Good

ROSS GOOD

ANDERSON + WANCA

Counsel for Plaintiffs

McLaughlin Chiropractic Associates, Inc.

and True Health Chiropractic Inc.

Dated: October 29, 2021

By: /s/ Tiffany Cheung

TIFFANY CHEUNG

MORRISON & FOERSTER LLP

Counsel for Defendants

McKesson Technologies Inc.

and McKesson Corporation

FILER’S ATTESTATION

I, Tiffany Cheung, in compliance with Civil Local Rule 5-1(i)(3), attest that I have on file the concurrences for any signatures indicated by a “conformed” signature (/s/) within this e-filed document.

Dated: October 29, 2021

By: /s/ Tiffany Cheung

Tiffany Cheung

²The Parties have a dispute regarding the admissibility of these documents, but this dispute need not be resolved for purposes of this stipulation. The Parties agree that Defendants are not waiving any rights to challenge the admissibility of these documents if Plaintiffs seek to introduce them in any future proceeding or trial.